AKA Ausfuhrkredit-Gesellschaft mbH

Annual Report 2018

EUROPEAN
EXPORT + TRADE
BANK

Contents

Creativity and quality

Our focus on people

It has been our goal for over 65 years to successfully provide international Export Financing within the framework of cooperative partnerships. Very good results in terms of business volume and new business earnings are demonstrated in the 2018 AKA annual report. In particular, we have achieved the highest volume of new contracts ever in our core business of long-term ECA-covered financing. Without our employees, who pursue the company's declared business objectives with commitment and expertise, such a positive development for the bank would be impossible.

For this reason, when it comes to visualising this year's annual report, we focus on our employees. What makes it so special: The portrait photos not only show the person but also the personal interests and hobbies of that employee. We portray both senior colleagues, who have gained considerable sector-related and professional experience while working at AKA, and new recruits – from trainees to executives, across departments and hierarchies. The diversity of its employees is one of AKA's great strengths as a specialised credit institution focusing on the financing of international trade transactions. We consider cultural diversity to be an enriching factor as it makes a substantial contribution to creativity and quality.

This cross-cultural mixing in the departments – with senior employees, new recruits, experienced Trade Finance experts, career changers from other sectors, young professionals and student trainees – is a decisive element in the overall success of teamwork at AKA. We have created a photographic body of pictures depicting the diversity at AKA, which, in addition to the wealth of facts and figures already contained in the annual report, will also tell you more about the people in our organisation.

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.

"I love to go hiking because I love exercising in nature and there is always something new to discover."

Monika Bertram

Executive Assistant
3.5 years at AKA

Hiking over hill and dale

Michael Schmid
Chairman of the Supervisory Board

AKA continues to grow

AKA had another remarkably good fiscal year in 2018 with a high degree of growth momentum. AKA embraced the changes brought about by an overall challenging market environment. The Supervisory Board kept a watchful eye on reactions to changing country risk profiles, regularly discussed AKA's response capability and market positions, and took decisions on these matters.

As a result, AKA achieved its growth objectives and exceeded them in some areas, and this has a positive impact on portfolio volume, portfolio quality and earnings performance. AKA continues to grow. The Supervisory Board approved the specific characteristics of AKA as a complementary specialist credit institution whose management has a clearly defined and focused product policy.

Over the course of several "strategy discussions" that management conducted with the Supervisory Board's Risk Commission, the cornerstones of the policy were reviewed and fine-tuned to allow AKA to increase the scale of its growth in terms of business volume, earnings and capitalisation in subsequent years. These activities, coordinated with the Supervisory Board, constitute the basis for the developments discussed in the section entitled "Digitalisation, Innovations and Automation".

Fundamental ideas about a digitalisation strategy were discussed closely with management, asking the question "what role could and should AKA possibly play in the future on the market and in the interest of its shareholders?". To this end, AKA is developing digital solutions in export financing that will provide support to shareholder banks. For the small-ticket segment, i.e. small-scale Hermes-covered buyer credits, AKA has developed a digital portal in its pilot phase that is the first component of a digital platform. The Supervisory Board was briefed about the progress of this project in several meetings.

The 2019-2021 Multi-Year Business Plan, discussed and approved by the Supervisory Board, has sections about growth planning, impetus for growth and digitalisation strategy. AKA has approved a separate, multi-year budget for innovation and investment because of the need to direct its processing capabilities and procedures even more towards automation.

The Supervisory Board reviewed and assessed beforehand whether AKA's regulatory governance and IT infrastructure are equipped to cope with the planned business growth and the digital requirements.

Tasks of the Supervisory Board

In fiscal year 2018, the Supervisory Board held five meetings as well as the Risk Commission. In addition three strategy discussions about preparing the agenda of the Supervisory Board's regular meetings were held by the expanded Risk Commission.

Thus in fiscal year 2018, the Supervisory Board carried out its duties correctly as set forth by law, the company's articles of association and rules of procedure, and supervised the Management of AKA Ausfuhrkredit-Gesellschaft mbH in a timely and regular manner, providing advice regarding the bank's further strategic development.

The work of the Supervisory Board included the following reports:

- periodic risk and controlling reports plus topic- and event-based reports from management
- reports from the internal audit team, money laundering officer, compliance officer and central office
- management notifications regarding the progress and outcome of the annual supervisory meeting with the Deutsche Bundesbank and the German Federal Financial Supervisory Authority (Bundesaufsicht für Finanzdienstleistungen/BaFin) as well as the result of the credit assessment by GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH, Cologne
- documents from the auditors (KPMG) in connection with their audit of the annual financial statements

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

Attendance at the Supervisory Board meetings was 98 %. The Chairman of the Supervisory Board and the Management also engaged in the regular exchange of information outside the meetings. The Supervisory Board was informed of important developments no later than the respective next meeting.

Subjects

The Supervisory Board held regular discussions about the development of significant financial risks as well as risk, liquidity and capital management. The Board also dealt with the Management of non-financial risks and made use of the reports from the internal audit team, compliance officer, money laundering officer and central office for this purpose. Operating in an environment increasingly shaped by digitalisation, the Supervisory Board was also informed about AKA's IT infrastructure.

Due to AKA's role as a specialist credit institution for trade and export finance focusing on emerging markets, credit and country risks are particularly important for the Supervisory Board. In particular, both the Risk Commission and the Supervisory Board received reports about the development of individual country portfolios during the course of the year and discussed risk policy with management.

Treasury-related topics such as liquidity management and the refinancing of AKA were discussed in detail at the meetings of the Risk Commission and the Supervisory Board. The committees received regular reports about the composition and maturities of borrowings. Against the backdrop of business growth, funding was considered a high-priority topic in the reports.

Treasury activities meet the requirements imposed by the business growth of AKA and by interest rate and equity markets. Regulatory requirements are met and the relevant key indicators are reported to the Supervisory Board.

The Risk Commission and the Supervisory Board regularly dealt with the risk bearing capacity (RBC) of AKA at its meetings. The main topics covered in these meetings were the implementation of regulatory requirements with regard to interest rate risks as well as the establishment of AKA-related requirements imposed by BaFin's RBC guidelines.

The Risk Commission held in-depth discussions of the bank's risk strategy. This strategy covers all aspects of risk management and is continuously refined to address current developments and conditions.

Individual product groups, business opportunities and revenue optimisation from the perspective of risk/return ratio were discussed during the Supervisory Board's meetings with management. Continuing the growth strategy as well as the importance and opportunities of digitalisation for AKA were considered paramount.

The 2018 plan was very ambitious in terms of increasing new business transactions, net earnings and operating profit. In terms of financing products, particular emphasis was placed on ECA-covered financing. At its meeting on 22 February 2018, the Supervisory Board discussed and approved the plan.

Fiscal year 2018 also saw the discussion and adoption of a new Multi-Year Business Plan (MBP) that will cover the 2019–2021 period. The MBP is based on the continuation of AKA's adopted strategy. The MBP also envisages considerable business growth in all financing divisions of AKA, with particular emphasis on the increase in long-term ECA-covered financing in the loan portfolio. Net earnings from the loan business as well as operating profit increase from year to year.

The MBP has earmarked an extensive innovation and investment budget.

Capital planning shows that AKA has risk bearing capacity over the period covered by the plan. The minimum capital ratios required by regulatory authorities are adhered to even under adverse conditions. The MBP was reviewed with the Risk Commission as part of a strategy discussion, and was discussed and approved by the Supervisory Board at its meeting on 6 December 2018.

The Supervisory Board received reports about the internal control system with respect to the regulatory governance of AKA. The Board also dealt with the implementation of requirements under the German Remuneration Ordinance for Institutions (Institutsvergütungsverordnung/Instituts-VergV).

Commissions

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. The committees thus make an active contribution to the Supervisory Board's work. Attendance at committee meetings was 87 %.

Risk Commission (RC): The RC met five times over the course of the fiscal year in preparation for Supervisory Board meetings. The Supervisory Board was given comprehensive information about the agenda and results at the meetings held immediately afterwards and received RC recommendations with regard to resolutions.

The RC received regular extensive reports about the loan portfolio, the risk/return profile and the development of individual country portfolios. The RC received reports about market price, liquidity and operational risks, and dealt with AKA stress test scenarios covering all material risks. The RC discussed the bank's risk strategy.

The Risk Commission's strategy discussions with management in 2018 were particularly important. The strategy discussions take place using a format selected by the RC and the strategic direction and future issues are discussed with management. The Supervisory Board receives reports about the content of these strategy discussions and receives minutes of the meetings for its approval.

A total of three strategy discussions took place in 2018. The topics discussed were: AKA's growth trajectory, multi-year business and capital planning, small-ticket development, digitalisation, development of a platform strategy, and the investment and innovation budget.

Compensation Control Committee (CCC):: The CCC held five meetings in 2018 in preparation for the Supervisory Board meetings. The Chairman of the committees reported to the Supervisory Board about the content of the meetings.

In its meetings, the CCC dealt with, among other things, the staff structure of AKA and the budget for bonus payments, taking into account the achievement of goals in 2018. The drafting of agreements on objectives and the structure of the management bonus scheme were reviewed, with the latter now being based on trend information over a 3-year period. The CCC also received reports about the implementation of requirements arising from the German Remuneration Ordinance for Institutions.

The CCC also dealt with the structure of compensation for the Supervisory Board. With regard to the 2018 reorganisation of the Supervisory Board for a new 3-year period, the CCC recommended that the structure of compensation for the Supervisory Board for the entire period of appointment be reorganised as well. The proposal, based on a benchmark study from the previous year and opinions on regulatory governance, was initially discussed at the Supervisory Board meeting on 10 April 2018 and it was consequently recommended that the shareholders' meeting approve it.

At the shareholders' meeting on 10 April 2018, the majority of shareholders were in favour of the recommendation and the corresponding amendment of AKA's articles of association.

Nomination Committee (NC): The NC met three times. The Chairman of the committees reported to the Supervisory Board about the content of the meetings.

At its meeting on 22 February 2018, the NC carried out an evaluation of management pursuant to section 25c of the German Banking Act (Kreditwesengesetz/KWG) and an assessment of the Supervisory Board pursuant to section 25d of the KWG.

Personnel changes

The three-year term of office of the Supervisory Board ended on 10 April 2018. Members of AKA's Supervisory Board are appointed based on provisions of the consortium agreement and articles of association of AKA as well as the nomination procedures. With regard to the regular reorganisation of the Supervisory Board in 2018, the following Supervisory Board staff changes were made, effective 10 April 2018:

- Mr Philipp Reimnitz, UniCredit Bank AG, left his position as a full member of the Supervisory Board. UniCredit Bank appointed Mr Thomas Dusch as his successor.
- Mr Max Niesert, Portigon AG, also vacated his position as a full member of the Supervisory Board. His committee duties were taken over by the deputy member, Mr Georg Lucht, Erste Abwicklungsanstalt. Erste Abwicklungsanstalt appointed Dr Hartmut Schott as the successor to the previous deputy member.
- Ms Diana Häring resigned from the Supervisory Board as the representative of Landesbank Hessen Thüringen Girozentrale as the latter is no longer represented on AKA's Supervisory Board.
- Hamburg Commercial Bank AG joined the Supervisory Board as a new representative. This bank appointed Mr Yoram Matalon as a full member and Ms Jutta Arlt as a deputy member.
- Mr Sascha Händler, Landesbank Berlin AG, vacated his position as a deputy member of the Supervisory Board. Ms Béatrice du Hamél was appointed as his successor.

Effective 30 September 2018, Mr Georg Lucht, Erste Abwicklungsanstalt, vacated his position as a full member of the Supervisory Board. Dr Hartmut Schott, a previous deputy member, was appointed as his successor and as a full member of the Supervisory Board effective 1 October 2018. The deputy's seat remains vacant.

At its inaugural meeting on 10 April 2018, the Supervisory Board elected Mr Michael Schmid as the Chairman, Mr Werner Schmidt, Deutsche Bank AG, as First Vice Chairman, Mr Thomas Dusch, UniCredit Bank AG, as Second Vice Chairman and Mr Alexander von Dobschütz, Deutsche Kreditbank AG, as Third Vice Chairman. The following committees were also formed: Compensation Control Committee, Nomination Committee and Risk Commission.

The audit and approval of the financial statements for fiscal year 2018

The firm appointed as auditor further to the shareholder resolution of 10 April 2018 – KPMG Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, Germany – audited the annual financial statements for fiscal year 2018, the accounts and the management report, and issued a clean audit certificate.

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

Thanks

The Supervisory Board would like to thank management and staff members of the bank for their outstanding dedication and work in 2018. The bank has once again achieved a good result in terms of market position and figures.
In close cooperation with the Supervisory Board, fundamental decisions were taken in 2018 for the continued development of AKA's strategy. There are also good prospects for AKA's operating business for the coming year.

Frankfurt/Main, April 2019

The Supervisory Board of AKA
Ausfuhrkredit-Gesellschaft mbH

Michael Schmid
(Chairman)

Full members	Deputy Members
Michael Schmid Economist Königstein/Taunus – Chairman –	**Jeannette Vogelreiter** Managing Director Commerzbank AG, Frankfurt/Main
Werner Schmidt Managing Director Deutsche Bank AG, Frankfurt/Main – First Vice Chairman –	**Frank Schütz** Director Deutsche Bank AG, Frankfurt/Main
Thomas Dusch Senior Vice President UniCredit Bank AG, Munich – Second Vice Chairman – as of 10 April 2018	**Inés Lüdke** Managing Director UniCredit Bank AG, Munich
Philipp Reimnitz Executive Vice President UniCredit Bank AG, Hamburg – Second Vice Chairman – until 10 April 2018	
Alexander von Dobschütz Board Member Deutsche Kreditbank AG, Berlin – Third Vice Chairman –	**Florian Seitz** Director Bayerische Landesbank, Munich
Michael Maurer Senior Vice President Landesbank Baden-Württemberg, Stuttgart	**Nanette Bubik** Vice President Landesbank Baden-Württemberg, Stuttgart
Dr. Hartmut Schott Executive Director Erste Abwicklungsanstalt, Düsseldorf as of 1 October 2018	**TBA**
Georg Lucht Executive Director Erste Abwicklungsanstalt, Düsseldorf as of 10 April 2018 until 30 September 2018	**Dr. Hartmut Schott** Executive Director Erste Abwicklungsanstalt, Düsseldorf as of 10 April 2018 until 30 September 2018
Max Niesert Managing Director Portigon AG, Düsseldorf until 10 April 2018	**Georg Lucht** Executive Director Erste Abwicklungsanstalt, Düsseldorf until 10 April 2018
Winfried Münch Direktor der DZ BANK AG Deutsche Zentral- Genossenschaftsbank, Frankfurt/Main	**Manfred Fischer** Direktor der DZ BANK AG Deutsche Zentral- Genossenschaftsbank, Frankfurt/Main

Full members	Deputy Members
Yoram Matalon Managing Director HSH Nordbank AG, Hamburg as of 10 April 2018	**Jutta Arlt** Department Head HSH Nordbank AG, Hamburg as of 10 April 2018
	Diana Häring Vice President Landesbank Hessen-Thüringen Girozentrale, Frankfurt/Main until 10 April 2018
Sandra Gransberger Head of Internal Audit ODDO BHF Aktiengesellschaft, Frankfurt/Main	**Birgitta Heinze** Direktorin ODDO BHF Aktiengesellschaft, Frankfurt/Main
Knut Richter Director Landesbank Berlin AG, Berlin	**Béatrice du Hamél** Director Landesbank Berlin AG, Berlin as of 10 April 2018
	Sascha Händler Director Landesbank Berlin AG, Berlin until 10 April 2018

Shareholders

Bayerische Landesbank, Munich

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

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

Oldenburgische Landesbank AG, Oldenburg, as of 31 August 2018

ODDO BHF Aktiengesellschaft, Frankfurt/Main

Skandinaviska Enskilda Bank AB, Stockholm/Sweden, as of 4 January 2018

UniCredit Bank AG, Munich

Executive Directors

Beate Bischoff
Frankfurt/Main

Marck Wengrzik
Frankfurt/Main

“From an early age
I have been inspired
by my parents‘ passion for art.
Over the years I have learnt
to make that passion my own.
Art is something
you must live to fully enjoy."

Alexis Plan

Vice President, Treasury
6.5 years at AKA

Always in search of inspiring artwork

Management Report

Marck Wengrzik,
Executive Director,
AKA Ausfuhrkredit-Gesellschaft mbH

The trenches are getting deeper: trade conflicts, sanctions, currency crises and signs of recession

All in all, against a backdrop of global political developments, 2018 can be regarded as a continuation of the process of division. The only thing new is the strong symbolism of the trade dispute, which makes the conflict-ridden side of international relations abundantly clear.

Politics held sway over stock exchanges throughout the entire year. Conflicts and elections affected share prices and currencies. We are of course talking primarily about the trade dispute with China and the EU initiated by US President Trump. Italy's debt discussions with the EU, the elections in Brazil, the currency crisis in Turkey and the continuing tough Brexit negotiations were also significant factors[1].

2018 was also a year in which many economic hopes were dashed. In May, for example, the US withdrew from the Iran Nuclear Deal. Oil prices reacted immediately, with the price of oil approaching the 80-dollar mark[2].

Argentina offers another example of the prevailing trend. In September 2018, the peso lost more than half of its value retrospectively since the beginning of the year and inflation hit more than 30 %. The government had to ask for help from the International Monetary Fund (IMF).

The IMF it was, also, that urged more international cooperation at the end of the year. It said that multilateral cooperation was more important than ever as countries had less latitude than they did before the 2008 financial crisis to implement countermeasures in the event of a significant global downturn[3].

The loose ends in the trade conflict between the EU and the US, in particular, are important to the German market and AKA's business development. After the punitive tariffs imposed on steel and aluminium shipments in March 2018, US President Trump repeatedly threatened to impose tariffs on European automobiles. This is another significant uncertainty that the automotive industry has to fight against. The sword of Damocles represented by the car tariffs is not yet completely off the agenda in spite of the personal discussions held by German manufacturers with Mr Trump.

With the international tariff disputes and the prospects of a hard Brexit, the corporate environment is becoming considerably tougher. We should not forget that, as one of the largest export markets, the UK is very important to the German economy. If we take this into consideration, then the growth momentum in 2018 can be described as disappointing. Even with the prevailing circumstances in Germany, few positive developments can be seen in 2018. This can easily be underlined using infrastructure as an example. For such a highly-developed country as Germany, the transport situation in all sectors – trains, automobiles, aeroplanes – is deteriorating. Sooner or later this will have a dampening effect on economic output if costs, idle facility costs in particular, have to go up.

Another topic that continued to be in focus in 2018 was the issue of sanctions. Whether they apply to Iran, Turkey or Russia, sanctions create greater uncertainty and have already led to a noticeable downturn in investments.

In this context, we present this year's guest contribution article within the annual report, which also deals with conflict-ridden trade policies and their consequences:

The article, written by Prof. Dr Erdal Yalcin, Professor of International Economics at Konstanz University of Applied Sciences, Department of Business, Cultural and Legal Studies, addresses the topic "Uncertain times for the global economy – Time for a clear commitment to the transatlantic economic model".

His explanations tie in with the debates that dominated 2018 on the trade conflicts and the renunciation of free global trade: After over 60 years, the previously successful, competition-based global economic model is at a crossroads. Professor Yalcin outlines how this critical moment is reflected not only in theoretical economic debates but can also be seen in the recessions that are becoming increasingly likely at a national and global level.

Economic framework conditions and the consequences for the Trade Finance market: The world as a whole was tougher and more volatile at the end of 2018. With respect to purely economic developments, 2018 turned out to be less spectacular: the global economy grew by 3.7 % in 2018, but, according to IMF forecasts, a slowdown to 3.5 % is to be expected in 2019[4].

The trade conflict, already talked about here several times, should also be the first thing to be mentioned when it comes to fundamental conditions for the Trade Finance market. Fears of a weaker global economy put pressure on commodity markets in 2018. The persisting trade conflict between the US and China as well as between the US and the EU dampened expectations of growth prospects in national economies. Uncertainty about the consequences of the conflict had a negative impact on global demand for commodities, and prices – especially on the crude oil market – dropped as a result.

The HWWI Commodity Price Index fell by 9.5 % in December 2018. Thereby, commodity prices dropped considerably again in the last month of 2018, although less sharply than in November. The total index decreased to 112.9 points and thus was 4.8 % lower compared to the previous year. The most significant loss was in the Energy Commodity Index. It decreased by a monthly average of 10.5 %[5].

Developments in the commodity markets thus encouraged good economic growth in Germany in 2018.

While the US Federal Reserve reacted to the positive economic development in the US over the course of the year by gradually raising key interest rates in three steps, the European Central Bank remained largely 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.

Since September 2018, the ECB has reduced its monthly purchase volume from the current EUR 30 billion to EUR 15 billion, as part of its quantitative easing strategy. Net purchases are to end in 2019. No associated effects on interest rates are expected in 2019.

In view of possible recessionary trends in 2019, the US has thus created more leeway for itself to be able to react to a weakened global economy.

The high liquidity continuing to result from the ECB's monetary policy also led to a further, although still very moderate, decline in Euribor rates in 2018. As a result, the 6-month Euribor rate fell to -0.266 %[6].

Focus on AKA's business development:
The EMEA syndication market most relevant to AKA experienced a slightly positive development in terms of volume in 2018 compared to the previous year[7] coupled with increasingly stringent terms and conditions[8].
However, AKA's activities in this sector diminished slightly compared to the previous year (also due to risk-related restraint on the syndication market for Turkish FI risks).

The volume covered by Hermes performed very positively in 2018, increasing by 17 %[9]. This strong trend is also partly due to AKA's performance, which resulted in an excellent total business volume of EUR 2,022 billion in fiscal year 2018, thus achieving significant growth of 31 % compared to the 2017 business volume. With regard to Hermes-covered transactions and the average increase of 31 % in new business, AKA's growth was therefore considerably higher than the trend in Hermes coverage compared to that of the previous year. This is due to an abundance of opportunities for financing amongst non-shareholder partners and to a greater focus on ECA-covered project financing.

In addition, AKA made excellent use of short-term offerings in 2018, especially sub-participations in LCs, and was able to generate a much better volume of business amounting to EUR 542 million compared to the previous year.

At times of growing customer demands, digital competitors (current buzzword: Fintec) and an increasingly complex regulatory system, one thing invariably becomes essential for competitive ability and sustainable growth: digitisation in the banking sector. Banks in Germany have recognised the decisive role that digitisation will play. By 2020, the top 50 German private and corporate customer banks intend to invest up to EUR 6 billion in digitisation initiatives[10].

"At times of growing customer demands, digital competitors and an increasingly complex regulatory system, one thing invariably becomes essential for competitive ability and sustainable growth:

Digitisation in the banking sector."

Also AKA focused its digitisation efforts in 2018 by already expanding its services: As a specialist credit institution focusing on ECA financing, AKA feels responsible for offering sustainable solutions for small-scale Export Financing. To this end, AKA has created its own new team of employees to offer an IT-supported, digital product solution. The new online solution for financing requests is called SmaTiX (Small Ticket Express). In 2018, the pilot phase was able to commence with the cooperation of shareholders, Euler Hermes credit insurance and the export industry. During this test phase, a group of select exporters is working with AKA on further optimising the portal. The vision: AKA is using SmaTiX to develop the central processing platform for Export Financing in the small-ticket segment.

With the planned 2019 enhancement of reciprocally integrating SmaTiX and Click&Cover, the online coverage request platform of Euler Hermes, AKA will take one step towards the world of API banking (Application Programming Interface Banking). Through APIs, data and functionalities of existing applications, such as online banking platforms, can be utilised by third-party providers. This will facilitate the easy and quick integration of data or banking functionalities into third-party applications and services, and vice versa.

The market-related challenges also made it increasingly clear in 2018 how important it is to place AKA on a broader footing as part of its development and growth opportunities.

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"The shareholder banks again made extensive use of AKA's services in the ECA-covered segment in 2018, thus displaying a clear show of confidence in its high-quality expertise and partnership."

A very good result for the year 2018

In fiscal year 2018, AKA recorded a very good business volume of EUR 2,022 million, thus attaining significant growth of 31 % compared to 2017. Earnings from new business once again reached a historic high of EUR 13.4 million.

The following developments were of particular significance in fiscal year 2018:

AKA was particularly successful in its core business: ECA-covered financing. The business volume of EUR 938 million is well above target and the previous year despite high market liquidity.

The Structured Finance and Syndication department (SFS) is responsible for FI desk products, structured finance (including receivables) and syndicated trade loans. A welcome but differentiated picture once again emerged here in fiscal year 2018:

In the short-term segment, the business volume for risk participations in letter of credit confirmations and related products recorded significant growth. This business line succeeded in closing deals well above target and the previous year in terms of volume and earnings.

While the growth gained in volume in structured finance was very satisfactory, earnings did not match the increase in business volumes due to the very high liquidity in the market and the corresponding lower prices.

The previous year's result for syndicated trade loans (STL) was exceeded only in terms of earnings in the course of a fiscal year that was again characterised by low willingness to place out on the part of the market. However, the previous year's volume was just below the previous year's level.

The largest share in the product portfolio of new business at 46 % was fortunately achieved by AKA with its profitable anchor product: participations in ECA-covered buyeŕs credits (2017: 43.9 %). Second place was taken by risk sub-participations in letter of credit confirmations and related products. The numbers and volumes attained in this segment increased their share of new business to 27 % (2017: 23.9 %). This was followed by participations in syndicated trade loans with a volume of 15 %. The proportion of structured financing remained at the level of the previous year (9.5 %) at 9 %. Participations in non-recourse forfaiting increased to 2 % in terms of share (2017: 1.8 %). The proportions of other product groups such as guarantees, advance payment financing or other types of financing are negligible, just as in the previous year.

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 segment in 2018, thus displaying a clear show of confidence in its high-quality expertise and partnership.

At EUR 938 million (2017: EUR 675 million), the volume of AKA's proportion of contracts concluded is well above the level of the previous year.

Most of the commitments were again made in cooperation with the German ECA Euler Hermes. Financing was also conducted with other European ECAs.

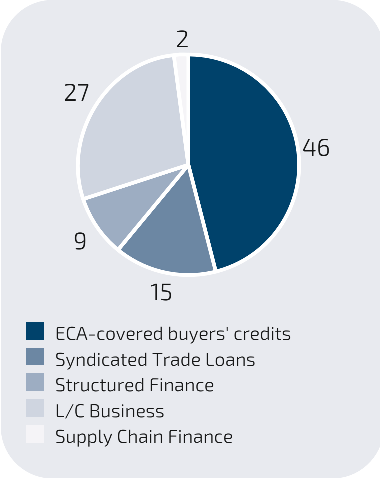
In this context, in 2018 AKA further reinforced its refinancing capabilities using refinancing programmes from European export credit agencies.

The participation in ECA-covered project financing, systematically initiated in 2016, was successfully continued. Some highly interesting major transactions are already being envisaged for subsequent years. AKA has specially trained and experienced employees for this segment.

The focus of AKA's business activity is on cooperation with its shareholder banks. In addition, AKA is also cooperating in all product lines with selected banks with a good international reputation. This part of business was equally stable. However, some core AKA activities continue to be available exclusively to shareholder banks.

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

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



FI desk activities, which are mainly risk participations in LC's of AKA's partner banks, were consolidated in the SFS department during the course of the fiscal year. The expected synergies, especially in terms of market contacts, were realized within a very short time. The business volume in this segment increased significantly to EUR 542 million and is thus far above target and the previous year. In this product segment, AKA participates solely in silent risk sub-participations in LC's, bank guarantees or related products mainly with terms of less than one year. AKA's partnership with the European Bank for Reconstruction and Development (EBRD) in its Trade Facilitation Programme continued to develop positively during the course of the fiscal year.

Structured financing: The volume of new business rose to around EUR 244 million exceeding the previous year's volume. The sanctions imposed on Russia by the US and the EU led to a noticeable decline in pre-export finance (PXF) transactions, traditionally a very important market segment for AKA. Newly concluded SFS financing deals primarily involve participations in commodity-based transactions. As a result this segment more than compensated for the decline in business with Russia.

Syndicated Trade Loans (STL): Borrowers are mostly banks maintaining a system-relevant position in their countries and major international trading houses with a first-class reputation.

The trade-related syndication market relevant to AKA once again demonstrated a slump in volumes in 2018, coupled with high completion in terms and conditions. Turkey's short-term FI business, which is important for AKA, was characterised by very intense competition in early 2018, despite the continuing unfavourable political development. Despite these difficult conditions, earnings of EUR 5.7 million were up on the previous year's level, whereas the volume of business transacted was only slightly down on the previous year.

2.2 Total commitments

AKA's total commitments performed well as of the reporting date of 31 December 2018, rising to around EUR 5.8 billion (previous year: EUR 4.9 billion). This total includes AKA's and its shareholder banks' loan volume as well as receivables held in trust by AKA.

2.3 Good prospects for AKA's new business for 2019

AKA expects the strong market position of the European export economy to continue in 2019.

In the long-term financing segment, AKA's new business will continue to concentrate in terms of volume on ECA-covered transactions for European exporters. In particular, major transactions and project financings are characterised by longer development times and an implementation date not always amenable to precise planning. As a result, AKA expects to conclude a number of substantial transactions in the first half of 2019. These have already gone through the preparatory stages in the previous fiscal year. Apart from large-volume, mostly financed in a consortium, AKA is also available to its shareholders and partners for medium-sized transactions on a bilateral basis.

As a specialised credit institution focusing on ECA financing, AKA feels responsible for offering sustainable solutions for small-scale export financing as well. This objective also enjoys support amongst the shareholder banks. This challenge was one of the focal points in the previous fiscal year. To this end, AKA hired a new team to design an IT-supported, digital product solution. This topic will continue to be also a focal activity in the fiscal year 2019. In this product development AKA cooperates closely with its shareholders, Euler Hermes credit insurance and the export industry.

The Structured Finance, FI Desk and STL product divisions were successfully combined under the SFS department.

"Diversification of the portfolio will be a priority for the coming year."

The Structured Finance product division pursues together with its partner banks financing for commodity traders and producers. These financing deals include secured structures (PXF, borrowing base, reserved base lending) plus short-term working capital financing (revolving credit facilities). Individual forfaiting transactions as well as large, uncovered guarantee transactions are set up for our group of borrowers. The excess demand for good, financeable assets will continue in 2019, keeping margins low and further easing structural requirements. The PXF Russia market, traditionally an important business for AKA, will decline because of the ongoing US and EU sanctions, and repaid transactions will not be re-established or will only be partially re-established. AKA continues to plan for the expansion of the group of partner banks beyond the group of shareholder banks.

In the silent sub-participations segment of LCs, AKA is consolidating its cooperation with the syndication desks of shareholder and non-shareholder banks. The goal is to achieve an even more active utilisation of AKA's country and address limits.

The STL division generally focuses on short-term, trade-related syndicated loans for banks. Against the backdrop of the persistently problematic development on the Turkish FI market, it remains to be seen how far AKA financing can continue in this important STL market, even if the risk perspective and the selection of borrowers were to turn out to be fortunate. Diversification of the portfolio will be a priority for the coming year.

Given the excellent 2018 results following the consistent expansion and intensification of cooperation with shareholder and further partner banks, AKA will make every effort, through its reconstituted SFS division, to continue refining its profile as an reliable partner. The team is confident to achieve the goals of the business plan.

AKA recorded a historically high level of business volume and earnings last year. Due to the good deal pipeline, the active and mutually supportive cooperation with its partners and the well-diversified limit and product structure, AKA sees comparable prospects for 2019.

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

"AKA is a specialised credit institution focused on international trade-related Financing and risk assumptions and does not operate any retail or mortgage business."

This is ensured by means of an adequate structural and procedural organisation. The responsibility for the successful implementation of the risk policy determined by Management is predominantly held by the Credit Risk Management (CRM), Export and Agency Finance (EAF), Structured Finance and Syndication (SFS), Portfolio Management (PM) and Treasury (TSY) departments, which are entrusted with the loan business.

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

Risk bearing capacity: An active risk policy or overall bank management incorporates all activities involving the scheduled and targeted analysis, management and control of all risks incurred with the aim of ensuring the bank's risk bearing capacity at all times.
As part of risk management, the bank has established limits using the limit system based on the available equity capital for all major risks; respectively defined individual limits.

Risk bearing capacity is calculated based on regulatory requirements and in line with normative and economic aspects. The normative calculation reviews compliance with the required regulatory minimum capital ratios.

Adverse developments are also taken into consideration during medium-term capital planning. In terms of economic aspects, the bank's risk bearing capacity is calculated based on regulatory requirements. In this case, the following must be adhered to:

risk coverage amount ≥ present value/ approximate present value risk potential

Risk bearing capacity is calculated every month by the Finance (FI)/Team Controlling department which monitors compliance with regulatory requirements and risk limits.

Furthermore, stress tests are carried out regularly for all significant risks as part of the risk bearing capacity calculation that is, for credit default risk, market price and liquidity risks and operational risks. The scenarios used as the basis for the stress tests are reviewed at least once a year in terms of their appropriateness, depending on the market development relevant to AKA or other requirements, and these scenarios are adjusted if necessary. The Management is notified about the outcomes of the check or update by the Finance/Team Controlling department as part of regular risk reporting (risk report). The Supervisory Board is not only kept informed by management of the outcomes of stress test calculations as part of regular risk reporting but is also involved in assessing the selection and appropriateness of the stress test scenarios.

The defined limits are reviewed during the periodic evaluation of the risk strategy. Once a year, a risk inventory of all relevant risks is drawn up. The 2018 risk inventory has not created any further increased risk potential for 2018 and as a forecast for 2019 such that the limits established for all types of risk are deemed sufficient.

As of 31 December 2018, AKA has a total capital ratio of 17.0 % as per the normative aspect. As per the economic aspect, 52 % of the available risk coverage amount (RCA) has been utilised as of the balance sheet date. Over the course of the fiscal year, the minimum degree of utilisation was 48 % in June (2017: 41 % in September) and the maximum was 54 % in November (2017: 54 % in February). The results presented show that AKA was capable of bearing risks at all times in 2018 and had met all regulatory requirements.

In addition, stress tests are carried out at least twice a year on major risks as part of the calculation of RCA. Specifically these are credit default risk, market price and liquidity risks, and operational risks. Further stress tests across all risk types are also performed.

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 or 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 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 94 % of the portfolio of net credit default risks remains located abroad and exclusively includes banks, corporates and government debtors.

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

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

AKA's reporting as required by statutory supervisory regulations is still carried out on the basis of the credit risk standard approach (CSA).

AKA's risk profile pursuant to the regulations:

	2018	2017
Risk weighted assets (including market risk position and operational risk) in millions of EUR	1,465.7	1,244.1
Own funds in millions of EUR	249.8	242.1
Total capital ratio as per CRR in %	17.0	19.5

"Photography is like painting with light. A hobby, which I consider a method of capturing moments, feelings, landscapes and people in images forever as a form of memory."

Angie Rojas Munoz

Trainee, Portfolio Management
10 months at AKA

Finds it in the viewfinder


Canon
CANON ZOOM LENS
instax

Organisation of risk management: AKA's risk organisation is designed in accordance with the currently valid minimum requirements for risk management (MaRisk) and meets all legal requirements.

Risk organisation forms the structural and organisational framework for the implementation of the risk strategy. It has an impact on the internal control procedure. The manner in which this procedure is structured is described in the Management and Organisation Manual (MOM) and encompasses:
– the structural and procedural organisation (including market/back office separation of functions),
- risk management and risk control processes (= risk management),
- Internal Audit.

The MOM describes how tasks and responsibilities within the risk management system are demarcated.
Important components of AKA's risk organisation are:
– Management
– Credit Risk Management
– Liquidity Management
– Risk Controlling
– Compliance
– Data Security Management
– Business Continuity Management
– the Risk Committee
– the Credit Committee
– Internal Audit

Management: The Management is ultimately responsible for AKA's risk strategy based on the target risk/return ratio and will ensure that an appropriate risk infrastructure is implemented.

The Management has delegated the coordination of an adequate risk management and control system that meets internal and external standards to departmental managers (DM).

Internal Audit has been tasked with the responsibility for conducting an independent assessment of the appropriateness of the risk management and control system and for adhering to existing procedures based on the risk-oriented audit plan and the resulting audit procedures.

Credit Risk Management: AKA Credit Risk Management (CRM) is responsible for loan approval decisions within the limits and parameters prescribed by the Supervisory Board. CRM lends its support to the loan approval decision-making processes and takes decisions based on its delegated powers. The aim is to work closely with the submitting banks.

CRM takes loan approval decisions about participation in transactions that come under its delegated loan approval authority. The loan approval decision-making process is subjected to regular quality assurance. Furthermore, the department coordinates with Risk Controlling with regard to the preparation of risk standards for countries, sectors, concentrations etc.

CRM is also responsible for carrying out AKA's own credit risk assessment and the benchmarking of results with available rating data from external agencies. Active risk management is practised based on individual transactions and portfolios. This includes, among others, decisions about risk reduction/increase, recommendations for decisions about an appropriate risk provision or risk profile adjustments. With regard to business decisions, the objective is to maximise the risk/return ratio (taking account of the implemented RAROC system).

Liquidity management: The Treasury department is responsible for liquidity management and the associated potential market, liquidity and refinancing risks. Treasury is required to adhere to and monitor the liquidity risk limits established in the liquidity risk strategy. The Finance/Team Controlling department is responsible for determining and monitoring liquidity risk positions as well as their forecast and reporting.

Risk Controlling: Risk Controlling supports the Management and executive managers in the planning, management and control of all planned business activities. Risk Controlling is part of the Finance department.

An important subtask of Risk Controlling at AKA involves risk identification, classification, measurement, assessment and control as a contribution to the planning and achievement of company objectives. Risk Controlling discharges these tasks independently, that is, objectively and neutrally. This includes the coordination of an adequate risk management and control system that meets internal and external standards.

Risk Controlling supports the Management in all risk-related issues, especially in the development and implementation of the risk strategy and the creation of a system for limiting risks. The head of the Finance department is involved in important risk policy decisions made by management.

Risk Controlling is responsible for developing risk methods, standards and the associated processes for credit, market, liquidity, business and operational risks, and for coordinating between the pertinent units. In addition, Risk Controlling measures and monitors risk positions and analyses possible losses related to the risk positions.

Its tasks include the planning, development and implementation of risk management systems and methods. The setup and further development of early risk detection methods also fall under the responsibility of Risk Controlling. The methods used are subjected to regular validation and backtesting to ensure that they comply with regulatory requirements.

Risk Controlling coordinates management and control processes related to the risk capital such as the limit allocation process and the steering or monitoring of the risk/profit profile.

Risk Controlling ensures ongoing monitoring of the risk situation, particularly in relation to risk bearing capacity and adherence to the established risk limits. The Finance/Team Controlling department, working together with the departments responsible for the risks, ensures that risk limits for all significant risks are established and reviewed. Risk situation monitoring also involves the regular development of risk inventories to determine significant risks and to create a complete risk profile. Managers and Internal Audit communicate the results of risk identification, assessment, quantification and steering as part of the report to the Management.

Employees of the Risk Controlling department are given all the necessary powers and unrestricted access to all data in order to discharge their control duties. The regulatory body is notified when management of the Risk Controlling department changes.

Compliance: Pursuant to section 25a (1)(1) of the German Banking Act (KWG), a credit institution must have "a proper business organisation which ensures compliance with the legal provisions to be observed by the institution [...]". Part of this proper business organisation is adequate and effective risk management which, in turn, requires an internal audit system (IAS). A compliance function is a mandatory part of the IAS (section 25a (1)(3)(3c) KWG). The compliance officer fulfils the compliance function (MaRisk AT 4.4.2 No. 5). Pursuant to MaRisk AT 4.4.2 No. 2, it is the compliance officer's duty, while taking account of risk perspectives, to identify the important legal requirements. Non-compliance with such requirements can put the institution's assets at risk.

Data Security Management (DSM): The Management must prepare a data security policy and communicate this properly within the institution. The data security policy must be consistent with the institution's strategies. AKA has created the position of the data security officer for this purpose. This position includes the responsibility for dealing with all data security matters within the institution and towards third parties. The officer ensures that the data security objectives and measures set forth in the institution's IT strategy, data security policy and data security guidelines are made transparent internally and to third parties, and compliance with them is checked and monitored. DSM establishes rules for data security, defines processes and manages their implementation. DSM follows an ongoing process that includes planning, implementation, success control, optimisation and improvement stages.

The content of the data security officer's reports to the Management and the reporting cycle are based on BT 3.2 paragraph 1 MaRisk.

The model of procedure of DSM is based on BSI data security standards and serves the purpose of establishing a security level that is consistent with AKA's risk strategy. The Finance/Team Controlling department monitors the task of IT risk management and risk analysis. The goal of this organisational structure is to meet regulatory requirements (such as BAIT) and to allow all company risks to be managed centrally.

Business Continuity Management (BCM): BCM is the setup of emergency and crisis management whose goal is to ensure that important business processes are not interrupted or are only temporarily interrupted when damaging events occur, to reduce losses to an acceptable minimum and thus secure the bank's economic viability.

AKA determines which of its IT applications are significant based on requirements of business operations and as part of a Business Impact Analysis (BIA). By means of a protection requirements analysis (PRA) it is also examined which protection requirements are required by applications and other resources in terms of confidentiality, integrity and availability.
In an emergency preparedness plan based on the BSI standard, AKA has set up provisions that encompass the availability of electronically stored data and of IT systems important for business operations in case of an emergency.

Building on the content of these provisions and likewise based on the BSI standard, AKA has drawn up guidelines for emergency management, an emergency preparedness plan, an emergency manual and an emergency and crisis communication plan.

These documents stipulate, among other things, that it is the task of the Management to decide whether an emergency or crisis situation has occurred and what measures need to be taken where necessary.

As part of emergency management, the individual functional divisions of AKA can also resort to recovery plans to address emergency situations, in addition to the Business Impact Analyses (BIA). These plans are obtained directly from department managers.

During the course of emergency arrangements, appropriate exercises are regularly performed based on an appropriate emergency test plan. Emergency exercises, BIAs and PRAs are carried out at least once a year.

MaRisk AT 7.3 is taken into consideration in the aforementioned measures.

Risk Committee: The Risk Committee (RC) is the overall committee that handles all issues relating to risk, in particular the profile encompassing all risk types.

The RC meets regularly, at least four times a year. The agenda of these meetings will always include the last available controlling or risk report, new developments in the area of compliance and regulatory control. The primary goal of the RC is to monitor AKA's risk situation from an economic and regulatory point of view, and to determine risk-reducing measures and the parameters and methods needed to control risk.

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 takes decisions on any risk-minimising measures to strengthen internal control structures and reduce operational risks, for instance.

The RC is also responsible for adopting methods, models and parameters relating to risks. Decisions to be taken by management in accordance with MaRisk must be confirmed by the Management after the Risk Committee's approval.

The Risk Management Executive Director chairs the Risk Committee. The head of the Finance department is his or her deputy. In addition, Front Office management, all heads of department, the DSM officer, the deputy compliance officer as well as the advisor on regulatory control all take part in the RC.

The RC constitutes a quorum when the Management and the head of the Finance department are present. Decisions are adopted by a simple majority. Front Office Management and Risk Management, the Treasury Department Head, the CRM Department Head and the FI Department Head are entitled to vote.

Credit Committee: The Credit Committee (CC) has an operational focus and handles all issues relating to credit risks. The primary aim is to discuss issues relating to business policy and methodical credit such as credit lines, limits, products, countries and sectors.

In addition, individual loan exposures with a special structure or high risk ratio are discussed and decided on. Regular portfolio analysis and monitoring are also carried out. Topics such as large exposures, watch lists and risk concentrations, among others, are discussed in the CC as needed.

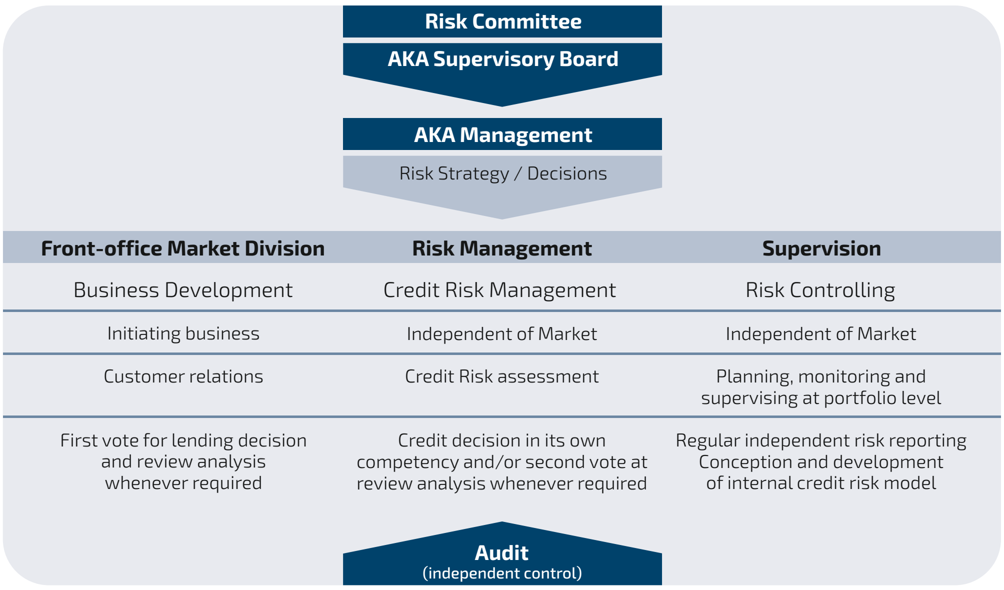
Risk Management holds the chair of the Credit Committee. The CRM Department Head is the deputy. Other committee members are Front Office management, the EAF Department Head, the SFS Department Head, the PM Department Head and the TSY Department Head. Other departments may be invited to take part if required when special topics are discussed.

The Credit Committee as an organisational unit does not constitute a separate level of expertise. Individual transaction, credit lines and limit permits may be granted if key personnel meet within the framework of a Credit Committee meeting. Existing authority levels shall apply and every decision taken in the CC regarding third parties shall be documented in a traceable manner.

Internal Audit: Internal Audit is part of the bank's internal control procedure ("Internal Monitoring System"). It reviews the appropriateness and effectiveness of the IAS and of risk management. Areas of focus during audits are systematically selected based on risk and are aligned with regulatory requirements.

Its tasks, among others, include the independent audit and analysis of the MOM based on a target/performance comparison with business processes and controls actually put into practice, the identification of weaknesses in the IAS and the assessment of the effectiveness of risk management tools and early warning indicators. In addition, as part of its audits it checks the correctness and completeness of risk reports submitted to the Management. Internal Audit is invited to take part in projects and participates in steering committee meetings.

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 new long-term business deals concluded. The target value for fiscal year 2018 of more than 35 % was achieved with around 66 %.

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

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

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

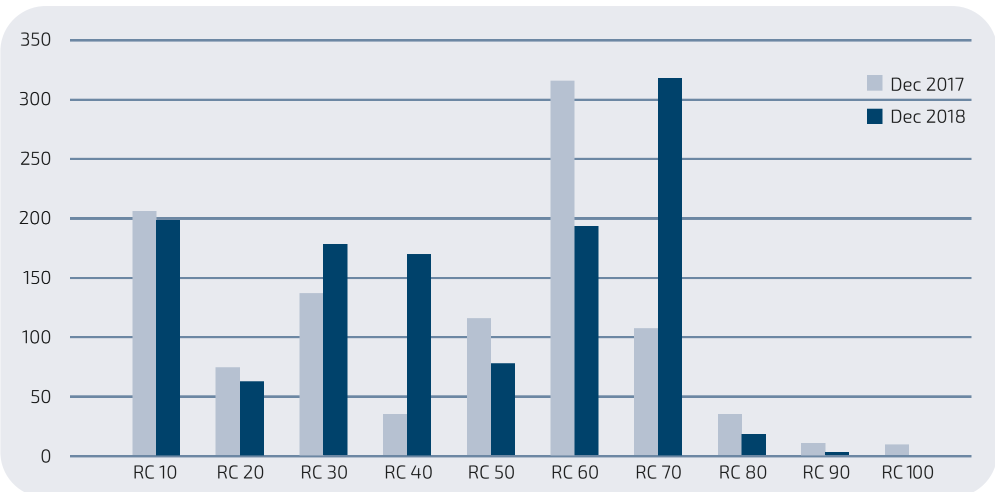
AKA classifies risks in the various classes of receivables as follows, in line with the Capital Requirements Regulation (CRR):

– Countries/Sovereigns
– Corporates
– Banks

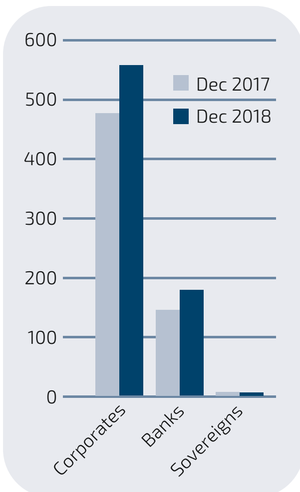
Special risks arising from commodity, structured and project financing arrangements as well as private insurance cover have to be taken into consideration as further risk categories due to the specific orientation of AKA's business policy.

Country risks: The country risk defines the ability of a country to pay interest and to repay principal of foreign debts or of 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, which could arise in case an individual debtor is willing and able to pay but a country might limit or prevent payments abroad for example due to a lack of currency. Nevertheless, national governments and economies may still be solvent.

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 ratings are calculated, and regularly updated for 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 reliable sources. For the main markets of AKA, CRM prepares additional reports or ad hoc information in addition to the annual country risk analyses. Certain critical regions/ countries with particular problems are continuously and intensively monitored by credit analysts.

The country rating system is reviewed and further developed periodically. It is mainly based on the analysis of political stability, vulnerability to shocks, the development of inflation and foreign trade, state budget and financing as well as the banking system and its stability and regulation.

In the financing of emerging markets, which remains AKA's focus, the solvency of borrowers is primarily dependent on the political and economic situation of the respective country.

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 optimized 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– if available and applicable- , in order to provide an up-to-date picture of the borrower's current financial status. Gearing, overall return on capital and liquidity thus represent accurate key performance indicators for assessing the creditworthiness of corporates.

When preparing a rating for a company, the type of auditors' opinion and its accounting basis are both 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. When calculating KPIs, AKA reverts to a benchmarking system based on a subdivision into several sectors and eight geographical regions.

These benchmarks were reviewed and updated again in 2018 to ensure comparisons with AKA's international and national corporate business. Additional qualitative factors are taken into account in a second step for the conclusive assessment, which can lead to a change in the rating result.

Essentially, 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 processes 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, an interim report if available and applicable, The quantitative data includes, among others, 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 cover foreign currency risks, interest sensitivity, the level to which assets and liabilities meet their maturities and in particular, asset quality. Other information relating to ratings is included in the rating assessment using bonus or penalty points.

In addition, the country rating applies as the "overriding factor". A further significant component is the assessment of possible state support. The estimation based on the likehood, whether the analysed institution, as part of the countries' economic system, may rely on the support of the state in case of need.

As part of a quality assurance process, AKA works closely with external experts to ensure the further development of the rating tool in terms of its compliance with regulatory requirements and current market practice. The review last carried out in 2018 serves to optimise and, if necessary, re-evaluate individual rating parameters and the underlying regional benchmarks. In 2018, AKA's self-generated Bank Probabilities of Default (PD) was first used in the calculation of economic management parameters.

Risks from structured and project financing: Risks arising specifically from structured and project financing arrangements, primarily relating to commodities, 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 since credit default risks are increasingly also being covered by private insurance companies. As a policy holder, the Bank only accepts counterparties with an investment grade rating as part of its risk management process. 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 the long-term and short-term loan business additional sector limits exist to narrow risk concentrations. With the establishment of new sector segments for "Transport" and "Infrastructure", there are currently 20 corporate sector limits. Sector limits, in each case 10 % of the overall limit, have been set for 18 corporate sectors. For the "Raw Materials/Oil and Gas" and "Trade" sectors, the limit has been set at 15 % of the overall limit. As a result, the country limit can have a corrective impact, depending on the country rating.

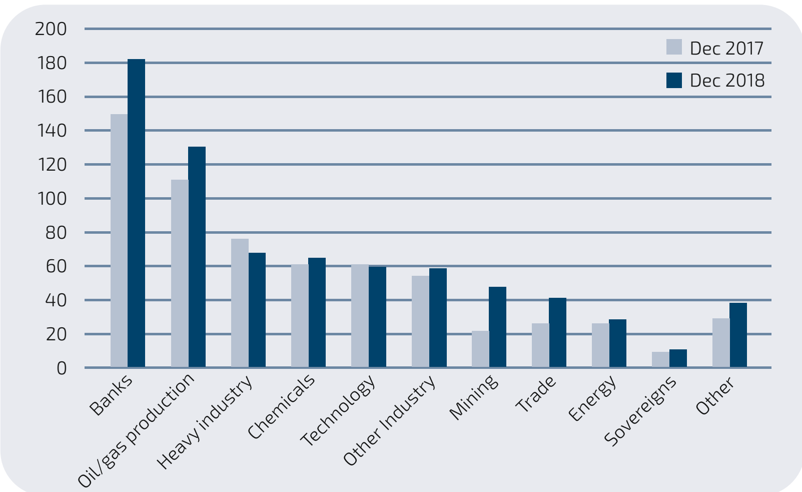
Risk concentration: As part of its portfolio management, AKA utilises a limit system that has proved itself successfully in practice in order to control country, industry and counterparty limits and to avoid concentration risks. In order to avoid concentration risks, AKA primarily bases its approach 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 aforementioned control-mechanisms and criteria are used to monitor and avoid 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"). 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: Limit framework for credit default risks and portfolio management: The limit framework used by AKA in its portfolio management takes account of eligible collaterals as per CRR, which limit gross exposure. These are valuation-free financial securities from state export credit agencies. As part of its risk management process and to ensure limit headroom, the Bank also accepts private credit insurers as long as they have an investment grade rating. The limit framework is based on the maximum equity capital made available for credit default risk, whose use is calculated as part of regular risk bearing capacity calculations. The bank has defined an income limit as an upper limit for losses for all credit default risks. This has already been adjusted by the supervisory authority in light of the recent increase in equity capital requirements (11.0 %) for 2019.

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



"A suitable credit rating and risk-appropriate pricing are essential requirements for a positive credit decision."

The total net liability limit of EUR 2 billion quantitatively differentiates a long-term from a short-term limit framework (i.e. long term: EUR 1 billion, short term: EUR 1 billion). It is structured with increasing nominal limits dependent on internal rating classes. The use of these respective limits is reported to the Supervisory Board at least once a quarter at the relevant meetings.

The limits provided for concentration and credit default risks are suitable and were consistently met throughout 2018.

Compliance with all risk-related management parameters is monitored on an ongoing 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 SB for its attention. The SB declared its agreement with the risk strategy presented by the Management and the limit framework set out therein through the SB Resolution of 6 December 2018.

An economic internal monitoring and management component supplements the aforementioned limit framework and its use of equity capital according to the credit standard rate (CSR).

IInternal 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 is also regularly compared with the applicable regulatory CSA parameters applicable to AKA. This remains the basis for risk management pursuant to the capital adequacy value calculated based on the CSA.

Credit decision-making process and allocation of authority: Based on AKA's own rating, Credit Risk Management (CRM) takes loan approval decisions within the scope of its 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 loan decision requires two consenting votes from the EAF, SFS and CRM departments.

"Motion and freedom:
I get both when I'm
cycling on my e-bike.
Plus a little bit of fresh air
and new impressions
of the environment."

Wolfgang Böhme

Director, Head of Credit Risk Management
13 years at AKA

Transforming highlands into lowlands

If necessary in the context of business development, the Management can request the SB to approve the establishment of appropriate special limits based on demand and according to the overall credit profile. This course of action was used for Turkey's country limit in fiscal year 2018.

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 departments can escalate the loan application and have the Management take the final decision. New Business departments and the Front Office Director cast the first votes on loans with a net risk greater than EUR 1 million. CRM and the director responsible for the back office cast the decisive second vote. If the vote is tied (2:2) then 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 may the minimum RAROC established by the Management based on target achievement 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 front office. The approved individual counterparty or country limits can be exceeded by 10 % for a period up to 12 months or up to 20 % for a maximum of 90 days if approved by the Management. Limits can be exceeded with reservations up to 30 %. The granting of excesses beyond this level has to be submitted to the SB for approval.

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

The early recognition of increased risks is carried out using defined, primarily qualitative 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 going back to be processed in the normal manner or – where necessary – transferred to the watch list. The watch list differentiates between intensive and problem loans. Intensive loans are defined as exposures with inherent default risks which require particular attention.

Problem loans are exposures of which 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 90 days or more overdue.

These loans pass special checks to see if they can be continued. Depending on the result, this examination leads to an action plan with the aim of reducing and/or eliminating the risk through specific measures such as restructuring, taking on additional collateral or reorganisation measures. If these measures are not needed, then the person responsible for processing problem loans will arrange for these exposures to be processed.

The Management and the SB 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 based on contracting partners but are determined through changes in market prices and rates (e.g. interest rates, foreign exchange rates and stock prices). The interest rate risk and foreign exchange risk are relevant for AKA in this connection. In general, effort is put into avoiding these risks by directly connecting the refinancing activities with the loan business. In addition, as a non-trading book institution, AKA does not conduct any transactions with the aim of obtaining additional earnings arising from the changes in market prices. It 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 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 earnings are quantified. On the one hand this is accomplished by determining variations of the present value in the banking 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 own funds 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. The calculated value for AKA using this method resulted in an adjustment coefficient of -2.6 % which was considerably below the relevant limit at 31 December 2018. On the other hand, the effects on the earnings position resulting from a sudden change in interest rates on the market are also identified. Furthermore, AKA prepares a quarterly gap analysis in order to monitor long-term fixed interest rates. This provides information regarding the fixed interest rates on the credit 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 refinancing in the local currency and refinancing in compliance with maturities. The remaining low foreign currency risk results primarily from the valuation of receivables within the context of appropriate risk provisioning for these loans. With regard to this, the foreign currency risk is low and backed with EUR 0.3 million of own funds as of 31 December 2018 in accordance with the Capital Requirements Regulations (CRR).

From the economic perspective of risk bearing capacity, foreign currency risks are calculated by means of historical simulation in a VaR model. As of the reporting date, the value-at-risk is EUR 1.9 million.

"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."

Liquidity risks: Pursuant to the risk definition used at AKA, 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, including through the use of its shareholders' coverage registers. A further expansion is being implemented.

To diversify its refinancing portfolio, AKA also uses refinancing funds from customers from the public and private sector. These come in the form of fixed-term deposits and promissory note loans (Schuldscheindarlehen). With individual customers, there are unconfirmed lines for the regular trading of fixed-term deposits.

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

	31.12.2018 EUR million	31.12.2017 EUR million
Shareholders	685	488
Non-shareholders	687	611
Publicly accessible funds	1,150	1,238
Total borrowings	**2,522**	**2,337**

Short-term liquidity: In order to ensure financial solvency at all times, AKA has built up a liquidity reserve amounting to EUR 200.2 million as of 31 December 2018. This is invested in short-term USD bonds in an amount of EUR 52.4 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, taking account of future payment obligations. These calculations take into account possible scenarios that may present different stress situations for AKA in the money and capital markets. AKA's capability to finance its business was secured at all times for any respective period in 2018.

In addition, AKA's short-term liquidity risks are monitored on the basis of key performance indicators such as liquidity coefficient and Liquidity Coverage Ratio (LCR) in accordance with the Capital Requirements Regulations (CRR).

The LCR measures the stock of highly liquid assets in relation to the net outflows of funds for the next 30 days. At the year-end, highly liquid assets exceeded the balance anticipated in January 2019 from inflows and outflows of funds by a factor of 1.26. On an annual average, the LCR was 1.71, varying between 1.11 and 3.07. The minimum rate to be met based on the guideline was 1.0 in 2018.

In an extended timeframe, the liquidity coefficient 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 was able to record surplus liquid assets that exceeded their payment obligations in the period under review by a factor of 3.23. During the course of the year, the coefficient fluctuated between 1.9 and 6.17.

Long-term liquidity: The loan portfolio is refinanced predominantly at matching maturities. Maturity transformation is only possible within the narrow limits set by AKA's supervisory committees who monitor compliance on a continuous basis. During the last fiscal year, the scope of maturity transformations was always considerably below the permissible volume during the year. A funding ratio modelling the relationship between refinancing funds for credit receivables with remaining terms of more than a year is used for measuring and monitoring purposes. In the past fiscal year, it fluctuated between 0.98 to 1.01, and it was at 0.98 at the end of the year.

The risk of increasing refinancing costs, which derives from the liquidity 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 from an annual perspective. For 2018, the associated risks ranged between EUR 0.2 million and EUR 0.4 million. A potential spread risk of EUR 0.2 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:

	31.12.2018	31.12.2017
Liquidity reserve (EUR million)	200.2	161.1
Liquidity Coverage Ratio Ratio of stock of highly liquid assets to net cash outflows over the next 30 days	1.26	1.56
Liq. coefficient Ratio of receivables to liabilities in the 3-month range	3.23	2.85
Funding ratio Ratio of refinancing funds to credit receivables with remaining term >1 year	0.98	1.00
Spread risk in normal scenario (EUR million)	0.2	0.4
Spread risk in extreme scenario (EUR million)	2.5	3.2
Interest rate risk (EUR million)	1.3	1.6

3.4 Risk provisioning

AKA takes appropriate account of all identifiable risks arising from the banking business. The CRM, PM and FI departments are all involved in the process to determine risk provisions.

Country Risk Provision (LWB): In accordance with the risk strategy, the country risk provision is the core element of 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 based on the permissible range of allowances in the rating model developed by the BMF. If the borrower risk is considered to be greater than the country risk, this forms the basis for a higher provision within the permissible allowance range. No risk provision is formed for country risks with a residual maturity of less than twelve months.

Other risk provisions for acute risks: In the case of the following loans, a deduction of between 25 % and 33 % is applied to the country risk provisioning rates set by BMF depending on the rating of the country where the supplier is based: Loans that are based not just on the financial circumstances of the borrower, but on additional collateral from proceeds from existing purchase contracts and/or project cash flows where, however, risks arising from conversion, transfer and payment prohibitions and moratoria are structurally not excluded.

For structured financing, in other words, 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 %.

Individual value adjustment (EWB): Individual value adjustments are recognised for loans where it will not be possible to receive all the contractually agreed interest and redemption payments in the 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. CRM, in coordination with management, is responsible for establishing the exact amount of the required allowance.

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 do not lead to higher assessments.

The detailed development of risk provisioning in the loan business in the past year:

	2018 EUR million		2017 EUR million	
	EWB	LWB	EWB	LWB
Allowances in the loan business				
Brought forward on 1 January.	4.5	16.9	5.6	12.1
Utilisation	0.9	0.0	1.1	0.0
Reversal	0.1	8.1	0.7	4.7
Allocation	0.3	8.5	0.6	9.6
Reclassification	-0.2	+0.2	+0.1	-0.1
As at 31 December.	**3.6**	**17.5**	**4.5**	**16.9**
Provisions for loan business				
Brought forward on 1 January.	0.1	3.4	1.8	2.9
Utilisation	0.0	0.0	0.0	0.0
Reversal	0.0	1.6	0.1	2.2
Allocation	0.0	4.4	0.0	1.0
Reclassification	0.0	0.0	-1.6	+1.6
As at 31 December.	**0.1**	**6.2**	**0.1**	**3.4**
Lump-sum provisions	0.8		0.6	
Total risk provision	**28.1**		**25.4**	

AKA was able to reverse value adjustments and provisions for contingent losses amounting to EUR 9.7 million in connection with country risk provisions, compared to EUR 6.9 million in the previous year. In contrast, the addition to country risk provisions totalled EUR 12.9 million, slightly above the previous year's level (2017: EUR 10.6 million). At the end of the year, EUR 23.7 million was allocated to country risk provisions (2017: EUR 20.2 million).

The individual value adjustments are accountable for claims of EUR 0.9 million, which are mainly attributable to a sale of receivables and a waiver of claims. In addition, EUR 0.3 million was added to individual value adjustments and a slightly lower level of EUR 0.1 million was released.

In regard to provisions for contingent losses, there was only a minor change. EUR 0.2 million was transferred to country risk provisioning.
The amount for credit default risks at the end of the year were totally 3.7 EUR million (2017: EUR 4.6 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 2018 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 AKA uses the Basic Indicator Approach (BIA). The underlying equity capital is calculated on the basis of an indicator for assessing operational risk which represents the entire operational risk of AKA.

AKA allocates an equity limit of EUR 8.0 million for operational risk. The BIA value calculated mathematically lay over the year at EUR 5.7 million (2017: EUR 5.5 million). As of 31 December 2018 the value was EUR 6.0 million. Operations management falls within the area of responsibility of the individual departments. The Finance/Team 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 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 2018 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 2018 ascertained these risks in all departments and in the Management. All departments were asked in writing to assess their risks for the whole of 2018. The reports from the individual departments were compiled by the Team Controlling, assessed, examined for their plausibility and compiled as an overall result. During a meeting of the Risk Committee, all Heads of Department discussed the overall result of the bank with the Management for a qualitative assessment and a final agreement was reached. Where necessary, relevant risk-reducing OpRisk measures were proposed to the Management for implementation. In line with a stress test internally conducted 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: The principal goal of IT operations is to guarantee a secure architecture set up to implement current business strategy objectives, a consistent database as well as IT systems availability that meet business requirements. To this end, IT is involved accordingly in the overall operations of the management team, the business planning process, risk assessment and new product processes. Sub-risks under the overall umbrella of IT risk include corresponding data security risks to be managed and monitored by the bank.

IT risks are part of operational risk. They are examined in terms of the need for operational adjustment and their materiality for business operations based on the business strategy and current developments of

AKA's business operations in the form of regular and, if necessary, event-related risk assessments. These regular assessments involve the risk inventory as well as the assessment of operational risks that take place at least once a year in a three-stage process. The findings obtained from these assessments are then taken into account/ implemented promptly during the adjustment of IT operations.

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: Compliance risks are risks that result from non-compliance with statutory regulations. AKA factors in and monitors compliance with pertinent statutory, regulatory and internal regulations as well as customary market codes of conduct (compliance) as part of its global business activity. Based on the risk analysis of AKA, this includes in particular national laws and EU regulations to combat insider trading, money laundering and the financing of terrorism plus foreign trade law and embargo monitoring. Insider trading plays a very negligible role at AKA as it is not a financial securities provider.

The compliance officer employed by AKA monitors compliance with pertinent regulations and regulatory provisions preventing fraudulent activities directed against the company as part of the officer's continuous discharge of compliance duties.

The external data security officer of AKA, Dr Karsten Kinast, LL.M., CEO of KINAST Rechtsanwaltsgesellschaft mbH, implements and monitors data protection regulations at AKA.
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 due to possible legal framework conditions. The risk becomes effective as soon as a negative operating result is achieved within the next twelve months. Strategic business risks include the jeopardising of the bank's long-term success.

The 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.

The effects of business risks on earnings are taken into account during capital planning in the "adverse developments" scenario. Business risk is currently not considered a significant risk in the context of MaRisk and therefore is also not quantified as a standalone type of risk under risk bearing capacity.

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 Team Controlling as part of the Finance 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
- Earnings
- Risk management
- Risk bearing capacity
- Definition and evaluation of stress tests
- Credit risks including the watch list
- Market price risks
- Liquidity risks
- Operational risk

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

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 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: 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.

Risk bearing capacity guideline: The revised version of the risk bearing capacity guideline was published by BaFin on 24 May 2018. In this guideline the authority describes its requirements with regard to ICAAP (Internal Capital Adequacy Assessment Process) of institutions. AKA has examined this topic thoroughly and the multi-year capital planning revised in 2018 was already incorporated into the structure of the new RBC guideline.

BaFin circular in September 2018 – Interest rate risks in the banking book: The revised version of the circular on interest rate risks in the banking book was published by BaFin on 12 June 2018. In it, BaFin fleshes out its requirements in concrete terms regarding the calculation of interest rate risk in terms of the "Basel interest rate shock". As a user of the previously applicable fallback procedure, AKA has analysed and implemented the new requirements. A first report was drawn up on 31 December 2018.

AnaCredit: The full reporting obligation stipulated under AnaCredit took effect on 30 September 2018. AKA has implemented all requirements and successfully submitted the first full report on 30 September 2018.

Implementation of new MaRisk amendments: The MaRisk amendment published on 27 October 2017 stipulated an implementation period of one year for "new" topics. This includes, among others, the topic of "risk culture and code of conduct". AKA identified outstanding issues by means of a gap analysis and successfully implemented them.

"As part of its risk management, AKA continuously monitors developments in international and national committees regarding regulatory requirements for credit institutions."

"Team spirit, passion
and enthusiasm.
This is why football is the
most beautiful triviality
in the world."

Dennis Sinzig

Trainee, Export & Agency Finance
11 months at AKA

Shoots the round thing into the square thing

4. Asset and financial position

AKA's balance sheet total rose by 4.5 % to EUR 3.207 billion as of 31 December 2018 from EUR 3.070 billion as of 31 December 2017. Including contingent liabilities and other liabilities, business volume experienced a more pronounced increase of 15.1 % to EUR 4.865 billion. An increase of EUR 142.9 million to EUR 496.5 million was recorded in letters of credit, guarantee obligations and guarantee transactions posted under contingent liabilities. The irrevocable loan commitments disclosed under other liabilities increased significantly by EUR 358.8 million to EUR 1,161.3 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 131.4 million to EUR 2.644 billion. To refinance the business, AKA has available liabilities to banks in the amount of EUR 2.293 billion and to customers in the amount of EUR 0.283 billion. As a result, the loan volume financed by banks increased by EUR 104.9 million. The proportion of transactions financed by customer deposits likewise increased by EUR 83.3 million.

Debenture bonds and other fixed-interest securities are held in an amount of EUR 56.0 million (31 December 2017: EUR 37.0 million). Insofar as they form part of AKA's liquidity reserve, they are short-term securities with a very good credit rating. As of the balance sheet date, this proportion of stock amounted to EUR 52.3 million (31 December 2017: EUR 33.3 million). As part of a rescheduling, the bank also received EUR 3.7 million in long-term government bonds.

The balance from the settlement of pension provisions with assets from the cover fund is stated under the "Active difference resulting from asset offsetting" item. The fund assets transferred to a trustee in form of a Contractual Trust Agreement (CTA) amount to EUR 25.0 million as at the balance sheet date. The acquisition costs of the offset shares also amounted to EUR 25.0 million. The settlement amount of pension provisions amounts to EUR 24.7 million.

AKA's equity is composed of the subscribed and fully paid-in capital of EUR 20.5 million and the revenue reserves. After the revenue reserves had increased to EUR 214.13 million as of 1 January 2018, the net profit for the year of EUR 12.04 million should be used to further increase the retained earnings by EUR 7.94 million to EUR 222.07 million and for a disbursement of EUR 4.1 million of the envisaged share of the balance sheet profit. The bank thus has a core capital of EUR 233.7 million, that is sufficient for the proposed business for the observation period of 24 months both in terms of capital adequacy under regulation (EU) no. 575/2013 (CRR) and in terms of the level of debt, as set out in Basel III accord (leverage ratio).

No special events occurred after the balance sheet date that might have had an impact on the net asset, finance and earnings position.

5. Earnings

Various factors affected the results of fiscal year 2018.

Net interest income during the past fiscal year was EUR 37.0 million, which is 12.3 % above the previous year's level (2017: EUR 32.9 million). The positive earnings growth in interest income can be attributed to an increase in the volume of loans and to higher net interest margins, in the ECA sector in particular.

The net commission income of EUR 6.1 million increased by 6.0 % compared to the previous year. In particular, this is the result of the positive development in the LC sector which overcompensated for the decline in net fee and commission income from the management of loan receivables held in trust.

Overall, the result from the loan business thus amounted to EUR 43.1 million compared to EUR 38.7 million in the previous year. Net earnings from the loan business, which provide a relevant performance indicator, reach a level of EUR 42.7 million, which is 12.4 % above previous year. The planned expectation for 2018, which was EUR 40.1 million, was clearly exceeded mainly through higher net margins in the existing ECA business and higher commitment fees accrued.

General administrative expenses rose by 2.8 million EUR in 2018, triggered by higher personnel and other administrative expenses. In particular, pension expenses increased by EUR 1.0 million due to a declining interest rate factor.

Compared to the results of the previous year, the operating result improved significantly by EUR 1.6 million to EUR 22.3 million. The Cost Income Ratio (CIR) constitutes a key performance indicator for AKA. The ratio of administrative expenses to net interest and net fee and commission income was 48.2 % and thus 1.8 percentage points higher that the previous year.

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

AKA has also made appropriate provisions for risks arising from the loan business in the 2018 annual financial statements. In total, allocations to risk provisions of EUR 14.9 million contrasted with liquidations of EUR 10.4 million. A depreciation of EUR 0.04 million was registered on the securities portfolio.

After deducting the profit-related taxes, a net profit of EUR 12.04 million was posted. This is considerably higher than the target value, projected in the business plan, of EUR 9.0 million.

Return on capital as a ratio of net profit and balance sheet total increased from 0.36 % in 2017 to 0.38 % in the last fiscal year.

"The net profit is well above
the target value
in the business plan"

Earnings	2018 EUR million	2017 EUR million	 EUR million	Change %
Net interest income	37.0	32.9	+ 4.1	+ 12.3
Net fee and commission income	6.1	5.7	+ 0.4	+ 6.0
Administrative expenses (incl. depreciation)	– 20.7	– 17.9	+ 2.8	+ 15.7
Operating result	22.3	20.7	+ 1.6	+ 7.6
Other earnings/expenses	– 0.5	– 0.5	± 0.0	– 8.9
Risk provisioning	– 4.1	– 3.5	+ 0.6	+ 18.3
Income taxes	– 5.7	– 5.7	± 0.0	+ 0.4
Net profit	12.0	11.1	+ 0.9	+ 8.6
Net earnings from lending	42.7	38.0	+ 4.7	+ 12.4
Cost income ratio	48.2 %	46.4 %	+ 1.8 %	+ 3.9
Return on equity (before taxes)	7.6 %	7.4 %	+ 0.2 %	+ 2.7

The return on equity before taxes, the company's third financial performance indicator, improved from 7.4 % to 7.6 % and is therefore well above the annual plan of 6.4 %. It is determined as the ratio of net profit before taxes to the equity capital available at the beginning of the year less the distributable profit.

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 also, among other things, 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 Nomination 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 2018. In total, 41 % of employees attended at least one continuing professional development event or industry conference. Furthermore, due to numerous new business, supervisory and regulatory requirements plus legal changes, the proportion of sector-specific professional training was more than 80 %. The Human Resources Development Programme (PEP) was also continued in 2018. The intensive Human Resources development and qualification of employees was further expanded by AKA in a target-oriented manner.

"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."

Staff structure: At the end of the fiscal year, AKA employed 118 (2017: 106) employees. Taking into account those employees on parental leave and working part-time, the active employee capacities, converted to full-time employees, were 109.75 compared to 96.12 in the previous year.

The proportion of employees not covered by collective bargaining agreements is 55 % (2017: 54 %). The average age of all employees is around 44 years (2017: 44 years). The average term of service is around 8 years and the proportion of employees who have been at AKA for longer than 10 years is 39.8 %. The fluctuation rate has decreased considerably. AKA has transferred management responsibility to 28 employees. The proportion of female executives is around 32 %.

Work-life balance: AKA is increasingly working to promote the compatibility of work and family life. To implement the company's philosophy, AKA offers specific part-time employment options which 24 % of employees are currently utilising. In addition, AKA has set up a cooperation agreement with pme Familienservice to support its employees in regard to child care, home/elderly care and in various other areas.
AKA considers the health of its employees as a valuable commodity. For this reason, a health day was offered in 2018 involving various preventive services and health checks.

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 2018, the percentage of employees from an international background was 23 %.

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 all of its 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.

Beate Bischoff
Executive Director
AKA Ausfuhrkredit-Gesellschaft mbH

Good opportunities for 2019

AKA looks back at a successful 2018 fiscal year. Business developed extremely well. In particular, we achieved the highest volume of new financing agreements so far within the core business segment of long-term ECA-covered financing. More successful transactions were also completed in terms of holdings in LC transactions compared to the previous year. There was a major positive development in AKA's Structured Finance division. Only AKA's activities in the syndicated trade loans segment recorded a slight decline.

AKA's financial performance indicators were largely achieved or exceeded. The proportion of long-term new business with investment grade rating, a quality performance indicator, is significantly higher than the target value. In regard to net earnings from loans, a financial performance indicator, earnings were 6 % above the planned level. The 48 % cost-income ratio (CIR) exceeded the planned value for 2018 but continues to be at a level considered moderate by financial industry standards. Higher costs associated with personnel expenditures and transfers to pension liabilities as well as higher compliance charges carried weight in this regard. The allocations to blanket country risk provisions were below the forecast value. A return on equity of 7.6 % was eventually achieved in the 2018 fiscal year, which is above the previous year's value and the target figure.

AKA will also stay on its successful business policy course in 2019. AKA focuses on financing and risk taking with a real-economy connection to trade and investment. The geographical focus of credit risks is on emerging markets in all regions of the world. Financing exports and projects related to German exporters is the traditional “core business” of AKA. Over the previous years, AKA had been expanding this focus to include Europe and AKA also aims to attract an even greater share of the Export Financing market from other European countries in 2019. Working closely with European banks will contribute to achieve this end.

AKA will continue to develop its product portfolio in conjunction with its shareholder banks. For example, AKA has established a digital prototype in the small-ticket segment, that is, small-volume buyer credits, and this prototype can still be expanded to include other functionalities. This will allow AKA to develop additional digital solutions which can offer added value to its shareholder banks. The activities and earnings for the year 2019, as well as the multi-year business plan until 2021, are determined by these factors through growth in all business sectors and through activities in the environment of increasing digitisation.

The development of the German and European economies and, in this instance in particular, foreign trade activities as well as economic and political development on emerging markets have a fundamental impact on AKA's business model. The development and flows of global trade are also relevant.

The Federal Ministry of Economics expects an overall growth rate of 1.8 % for the German economy for 2018 and as an outlook for 2019. German exports should increase by 3.7 % in 2019. The federal government hereby revises its earlier forecast slightly downwards. Nonetheless, the German economy clearly has been on a long drawn-out upswing[1]. Based on the European Commission's forecast, the 2.1 % growth in the European Union in 2019 will be somewhat lower compared to 2018 but the 2.4 % growth has been the highest level reached over the last 10 years[2]. The forecasts for growth of the global economy and international trade are following the same trend, that is, a slowdown after the high growth in previous years. Economists believe that this is more about a normalisation of growth rates than about factors attributed to protectionist trends and trade conflicts. Positive growth rates are forecast for all regions of the world. Growth at last year's level of 4.2 % is expected for emerging markets as a whole. The forecast for global trade will likewise come close to last year's value with an increase of 3.6 %[3].

Apart from the assessment of the economic situation, it is important for AKA's business focus to assess the risks that may arise from political developments and geopolitical tensions and conflicts. In an international context, the tensions in the Near and Middle East merit observation as well as the further development of sanction regulations that have an impact on countries such as Russia.

AKA sees good opportunities for its growth trajectory in 2019. While it is true, at first glance, that growth of relevant economic parameters is slowing down and there is international tension in terms of geopolitics and trade policy, AKA's loan portfolio is distributed over a large number of countries and regions and the cooperation with many German and international banks in new business deals also contributes to a high level of diversification in AKA's business. Due to its clear business policy focus on Trade and Export Finance and its efficient processes, the bank positions itself as a reliable business partner, generating a substantial transaction pipeline.

The UK's exit from the EU, to some extent, will force many players in the political and economic environment to face major challenges. Unlike other banks and financial services providers, AKA will hardly be affected by Brexit, whatever form it might take. AKA's financing business focuses on emerging markets and its exposure to borrowers domiciled in the UK is very low. AKA works with UKEF, the United Kingdom's export credit agency, in individual project-related cases. In addition, AKA conducts only a small amount of treasury activities in the sectors in which the financial centre of London plays an important role. Brexit therefore will not have a structural impact on AKA because of its business focus, neither will its loan portfolio be directly exposed to a potentially worsening economic landscape in the United Kingdom.

[1] Herbstprojektion der Bundesregierung:
In: https://www.bmwi.de/Redaktion/DE/Dossier/Pressemitteilungen/2018.

[2] Europäische Kommission - Herbstprognose 2018: Starker Binnenkonsum und hohe Investitionstätigkeit dürfen alle Mitgliedstaaten weiter wachsen lassen, wenn auch langsamer
In: https://ec.europa.eu/commission/news Press release of 8 November 2018.

[3] Global Economic Prospects, A World Bank Group Flagship Report, January 2019, p. 4, Chapter 1.

"AKA will also stay on its successful business policy course in 2019."

In its treasury activities, AKA continues to work on broadening its refinancing base while taking risk and earnings into account. In particular, broader borrowing in USD and an expansion of maturities in EUR were favourable endeavours for the company in previous years, and this trend should also be continued in 2019. AKA's conservative risk strategy in terms of liquidity risks is built on refinancing deals that comply with maturity and currency requirements as much as possible.

In the uncovered treasury segment, AKA continuously utilises the low-interest environment within the Eurozone for long-term time deposit and promissory note borrowings to manage regulatory requirements and economic risks. AKA also expects a low-interest environment for the Eurozone to continue in 2019. An interest rate increase, which might also be supported by lower bond purchases by the ECB, would then have a positive effect on AKA's earnings. The recent interest rate increase in USD has no noteworthy economic effect on AKA.

In summary, AKA plans a new business volume of about EUR 1.8 billion for 2019. The 2019 list of objectives shows a change in the key performance indicator (KPI) which relates to the quality of AKA's loan business. The new KPI measures the percentage of counterparty ratings in the ratings level "greater than 70" when it comes to AKA's total loan portfolio, including reserves. This percentage should not exceed 10 %. Regarding net earnings from the loan business, a result of around EUR 46 million is expected. The 2019 plan has an innovation and investment budget earmarked. AKA expects a cost-income ratio of 55 % when this additional expense is taken into account.

Based on the associated risk provision resulting from the business performance planned for 2019, a net profit after taxes in the amount of about EUR 9 million and a return on equity before taxes of about 6 % are expected. AKA has a solid equity base with target figures for aggregate capital ratio of 17 % and thus can continue to pursue its growth trajectory.

With regard to the regulatory environment, AKA will address the priorities laid down by financial regulation authorities in 2019. This continues to involve the issues arising from requirements imposed by financial regulation authorities on IT (BAIT). German financial regulation authorities also specify certain priority areas in the monitoring of the "less significant institutions" to which AKA belongs.

AKA considers itself a platform for topics related to Export and Trade Financing as well as to government instruments for foreign trade promotion. Through its own event formats as well as its involvement in committees such as Hermes-IMA and associations with national and foreign trade relations, AKA will also play its active part in the discussions throughout 2019.

Frankfurt/Main, 11 March 2019

The Management of
AKA Ausfuhrkredit-Gesellschaft mbH

Beate Bischoff   Marck Wengrzik

"The boundary between I and We
is melting away when you dance
a choreography together ...
Two become One ...
Dancing is our passion, dancing
means energy and poetry in motion!"

Olga Rausch und Christiane Thiem

Manager, Finance
Olga Rausch has been at AKA for 6 years
Christiane Thiem has been at AKA for 26 years

Have rhythm in their blood

Prof Dr Erdal Yalcin
Professor of International Economics,
Department of Business, Cultural
and Legal Studies,
Konstanz University of Applied Sciences

Uncertain times for the global economy –

Time for a clear commitment to the Transatlantic Economic Model

"World trade is in jeopardy" – that's an insight not only being expressed by renowned economists and politicians, but is also reflected in global economic developments. Growing nationalism and populism in Western industrial nations are seen as the main reasons for the increasing international uncertainty and the associated imminent global economic recession. Such an assessment overlooks deeper causes that threaten the rule-based global economic system of the future.

EU states and Germany in particular are open economies that have profited immensely from global trade in recent decades because of an extraordinarily high foreign trade contribution. Germany's commodity exports of EUR 1.3 billion in 2018 reached a new record high and correspond to about 40 % of the Federal Republic's GDP. By exporting to fast-growing emerging markets such as China, Brazil and India, German companies have been able to participate in the high economic growth of other countries and thus boost German prosperity both in recent years and in the last decades.

The basis for the export success of German companies is the General Agreement on Tariffs and Trade (GATT) which was adopted in 1947 by 23 nations under the leadership of the United States. Its goal was to reduce global trade barriers in the form of tariffs and quotas and create a foundation for fair and competition-based global trade. The GATT finally resulted in the establishment of the World Trade Organization (WTO) in 1995. With a current membership of 164 states, including Germany as an EU member state, the aim of the WTO is to preserve and enhance a rule-based global economic system.

The WTO allows German companies to engage in organised, cross-border trade by guaranteeing a reliable legal framework. However, trade in goods should not be seen as a one-way street for German exporters. On the contrary, German companies are also exposed to international competition in the form of importers, which have been increasing significantly in number in recent years. In this dynamic economic environment, the success of German companies rests on their high competitive and innovative capability.

Equally important are national public institutions and financial intermediaries, which facilitate successful foreign trade through efficient customs formalities and appropriate financial instruments, for example.

Rejection of international institutions or the end of a liberal economic order?

However, seventy years after the adoption of the GATT and the establishment of the WTO, support for these institutions and for free international trade is dwindling dramatically. The so far successful, competition-based global economic model is at a crossroads. This critical moment manifests not only in theoretical economic debates but also in imminent recessions at national and global level.

In the public debate, individual players are partially held responsible for this. The "America First" rhetoric and the associated trade protectionism of the US administration, for example, are seen as a major reason for the growing threat to the global economy. The fundamental question of whether the actions of new global economic actors – especially China – will continue to permit an international trading system with the existing rules and regulations in the future is less at the centre of the public debate.

This question has been discussed over the last five years in European and German parliamentary committees. The concrete question politicians are confronted with is the extent to which Chinese companies shall have continued free access to the EU market while China restricts access of foreign companies to its own domestic market.

This is not just a question of reciprocal market access. In fact, it is uncertain whether China with its growing economic relevance is ready to fully adopt current market economy rules and simultaneously contribute to the further development of these rules within the WTO.

Systems competition does not end but begins with China's WTO accession

With the collapse of the Eastern bloc starting from 1989, Western industrial countries have increasingly assumed that the liberal economic and social model promoted by the US and the EU would prevail in all nations of the world in the coming decades. Seemingly, it was no longer about systems competition but primarily about how transition countries, such as China for instance, can be integrated into the liberal, rule-based global economic order.

However, it is precisely the manner of China's integration into the rule-based global economic order that illustrates how Western nations have truly failed in their assessment regarding the end of the competition between different systems. The consequence is today's crisis in the global economic system. This can be illustrated by the reform of specific EU trade rules regarding China.

The People's Republic of China became a member of the WTO in 2001, thus committing to levying import duties on foreign goods at a maximum tariff rate, the most-favoured-nation tariff rate. As China's level of economic development was relatively lower than in Western nations, the country was granted protective tariff rates far above those of the US and the EU (Infant Industry Argument). While the average EU tariff for all trading partners is at around 4 %, China protects its domestic market against foreign suppliers with average duties of 10 %. In addition, it is usually impossible for foreign companies to acquire majority stakes in Chinese firms. China has to date one of the most restrictive investment laws for foreign investors.

In return, the EU and the US had taken temporary protective measures with regard to Chinese exporters due to the lack of market economy structures in China. Anti-dumping duties are of particular interest in this instance.

Dumping takes place, for example, when Chinese exporters sell their goods in the EU at prices below production costs. There can be many reasons for such behaviour, ranging from the elimination of over-capacities in China to wilful impairment of competitors in the target country. To prevent such unfair competition, the WTO offers member states the possibility to impose anti-dumping tariffs against specific exporters.

In China's case, WTO members were able to levy the hitherto significantly higher anti-dumping duties because China was classified as a non-market economy country. In legal terms, China was assigned "non-market economy" (NME) status under WTO rules. The opposing model involves countries with a Market Economy Status.

The legal basis for China's classification as an NME can be found in paragraph 15 of China's accession protocol to the WTO that came into force in 2001. This paragraph allows WTO members to temporarily impose significantly higher punitive duties against China in case of dumping. A particular feature of this Lex China consisted of this paragraph expiring at the end of 2016 and thus special treatment in the form of higher protective duties is no longer automatically possible today.

The fact that a WTO rule had a fixed term of 15 years is extraordinary. The underlying cause of this course of action taken by WTO members was the expectation that China will develop adequate market economy structures within this timeframe, thus negating the need for any special treatment.

China will not become a market economy within our lifetime

While the People's Republic of China has been developing into the world's largest exporter of consumer goods since 2001 due to its WTO membership, the expectations of Western nations regarding the opening of the state-controlled economic system and its transformation into a market economy have been completely dashed.

In fact, over the last 15 years, China has systematically placed the direction of individual industries under state control. The state has direct influence on key input prices such as energy but also indirect influence through government subsidies. State loans for large-scale projects and exports are granted to Chinese companies at terms that are impossible under market economy conditions. These interventions distort world market prices for a wide range of commodities.

The Chinese system also allows industries with large overcapacities to survive and this also contributes to a drop in prices. Given China's export power, these price misallocations are steadily increasing and represent a threat to free markets.

Individual sectors within the EU have already started to experience the ramifications of Chinese economic policy. The German solar cell industry, for example, was pushed out of the global market within a few years. Similarly, the Chinese steel industry is regularly facing punitive duties again and again.

While China's state economic policy has mainly been a problem so far for the "old economy", high-tech sectors are now increasingly coming into conflict with the Chinese economic model. In recent years, through state subsidies and the takeover of foreign market leaders accompanied by technology transfers, Chinese global companies are also appearing in key future-oriented industries. Their success, which is often not based on market economy principles, poses a threat to international competition in market economies.

After 1989, the world is obviously experiencing a new systems competition in which China makes use of the advantages of the liberal market economy system and, at the same time, systematically continues to protect its own market from foreign competition under the guise of an "Infant Industry Nation".

Neither the EU nor the US, acting alone, can win a systems competition

Both the US and the EU recognise these alarming developments. The Transatlantic Trade and Investment Partnership (TTIP) that was initiated under President Obama in 2013 as a joint trade project aimed, among other things, at reinforcing the rule-based market economic model and curtailing China's efforts to establish a state economic model. As generally known, this far-reaching trade agreement between the EU and the US failed because of major reservations, especially among the German public.

The TTIP failed, systems competition continues on the national level

A coordinated transatlantic course of action against China's economic policy appears to be improbable, especially since Donald Trump's election as the President of the United States. Therefore, member states of the EU increasingly take legislative initiatives that are explicitly directed at China's state-controlled economic policy. However, two examples make it clear that national solo policies cannot be a sustainable solution when it comes to global economic issues:

1) The new EU trade legislation allows higher anti-dumping duties only in special cases if the EU Commission can provide appropriate evidence. The USA, on the other hand, have maintained a special treatment of China in the American anti-dumping legislation, allowing higher punitive tariffs.

   If China were to pursue a dumping policy involving specific export commodities, this can lead to future bilateral conflicts not only between China and the respective trading partner but also to conflicts amongst China's trading partners. Because of its new anti-dumping rules, the EU could then impose lower anti-dumping tariffs against China than those imposed by the US. As a consequence, US corporations could declare EU exports too cheap due to utilised dumped intermediate goods from China, and likewise impose possible protective duties on them.

2) Another new initiative in economic policy, especially in Germany, is the revitalisation of an active industrial policy. The Federal Ministry for Economic Affairs and Energy plans to promote key industries so that they can become global market leaders, especially when facing state-supported Chinese companies. If all industrial nations were to act in such a manner, this could result in a competition for public funds amongst major industrial nations. First of all,

this could also distort competition conditions amongst Western industrial states. Furthermore, significantly higher burdens on consumers and the state can be expected if the market mechanism and the associated efficient pricing mechanism are weakened by increasing state intervention.

These two examples of trade policies currently being discussed show that solo policies of nations with a market economy weaken the hitherto existing rule-based global economic system in the long term and ultimately increase state interventions similar to China's.

A meaningful first step is to strengthen the transatlantic economic model

In light of China's economic approach, an increasingly active economic policy, especially in developed countries with market economies, is understandable. However, the examples illustrated above show that national solo policies will lead to intervention competition amongst member states of the WTO in the long term at the expense of a global market economy. Failure of Western industrial nations to coordinate and cooperate threatens to unleash a downward spiral whose end could spell the collapse of the WTO.

It is therefore of great importance for the transatlantic partners to return to a common foreign trade policy, especially in today's situation. A so-called TTIP Light, which will initially strengthen bilateral trade between the US and the EU, can be used as the engine for reinforcing the global trading system of tomorrow. The step-by-step expansion of a new Western liberal commercial alliance, similar to developments in the post-war period of the last century, has the potential to further develop the existing rule-based global trading system based on free competition.

The political challenge today is to convince an increasingly globalization-sceptical population of the need for a new transatlantic liberalization initiative. Recent developments in the United Kingdom in the context of Brexit or US protectionist trade policies show the complexity and the extraordinary challenge of these tasks.

"The actor Hans Sönker
puts it in a nutshell:
A declaration of love
is like a chess gambit:
the consequences
are unforeseeable."

Dr. Reuß-Markus Krauße

Consultant, Corporate Development
2 years at AKA

Always thinking two steps ahead

Assets	EUR	31.12.2018 EUR	31.12.2017 EUR thousand
1. Cash reserve			
a) Cash reserve	5,954.23		4
b) Cash held at central banks	133,350,284.04	133,356,238.27	89,154
including: at Deutsche Bundesbank EUR 133,350,284.04 (2017: EUR 89,154,000)			
2. Loans and advances to banks			
a) On demand	16,979,307.77		41,448
b) Other receivables	507,193,159.53	524,172,467.30	483,862
3. Loans and advances to customers		2,119,395,756.07	1.986,853
4. Debenture bonds and and other fixed-interest securities			
a) Money market instruments			
aa) from public issuers	17,373,258.08		0
including: eligible as collateral at Deutsche Bundesbank EUR 0 (2017: EUR 0 thousand)			
b) Loans and debenture bonds			
ba) from public issuers	3,700,325.32		
including: eligible as collateral at Deutsche Bundesbank EUR 0 (2017: EUR 0 thousand)			
bb) from other issuers	34,923,307.87	55,996,891.27	37,040
including: eligible as collateral at Deutsche Bundesbank EUR 0 (2017: EUR 0 thousand)			
5. Shares in affiliated companies		8,387,107.30	8,387
6. Trust assets		363,117,464.39	420,681
including: Trust asset loans EUR 363,117,464.39 (2017: EUR 420,681,000)			
7. Intangible assets Acquired licences, industrial property rights and similar rights and assets as well as licences to such rights and assets		402,008.69	486
8. Fixed assets		1,130,298.21	1,108
9. Other assets		506,351.64	277
10. Accrued and deferred items		301,048.07	322
11. Active difference resulting from asset offsetting		212,185.30	540
Total assets		**3,206,977,816.51**	**3,070,162**

Liabilities		EUR	31.12.2018 EUR	31.12.2017 EUR thousand
1. Amounts due to banks				
a) On demand		27,181,720.46		791
b) With an agreed term or period of notice		2,265,983,560.17	2,293,165,280.63	2,187,459
2. Amounts due to customers other liabilities				
a) On demand		26,677,515.99		21,062
b) With an agreed term or period of notice		256,171,254.55	282.848,770.54	178,487
3. Trust liabilities including: Trust asset loans EUR 363,117,464.39 (2017: EUR 420,681,000)			363,117,464.39	420,681
4. Other liabilities			330,128.35	504
5. Accrued and deferred items			7,250,036.76	8,007
6. Provisions				
a) Tax provisions		3,127,870.65		7,143
b) Other provisions		10,466,162.04	13,594,032.69	7,296
7. Equity capital				
a) Subscribed capital		20,500,000.00		20,500
b) Revenue reserves				
Other revenue reserves				
As at 01 January 2018	214,132,103.15			207,152
Transfers from net profit for the year 2018	0.00	214,132,103.15		6,980
c) Retained earnings brought forward		0		
d) Balance sheet profit		12,040,000.00	246,672,103.15	4,100
Total liabilities			**3,206,977,816.51**	**3,070,162**

1. Contingent liabilities Contingent liabilities from guarantees	496,491,028.37	353,620
2. Other obligations Irrevocable loan commitments	1,161,348,640.37	802,577

Profit and loss account for the period from 01 January – 31.12.2018

Expenses	EUR	EUR	2018 EUR	2017 EUR thousand
1. Interest expenses			40.840.414,93	32.268,04
2. General administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	9,647,480.54			8,671.20
ab) Social charges and expenses for pensions and for support	4,136,579.18	13,784,059.72		3,000.71
including: for pensions EUR 2,818,972.92 (2017: EUR 1,786,000)				
b) Other administrative expenses		6,499,820.87	20,283,880.59	5,823.36
3. Depreciation and value adjustments on intangible and tangible assets			456,615.85	429.57
4. Depreciation and value adjustments on receivables and certain securities plus allocations to provisions in the loan business			4,085,375.73	3,452.14
5. Other operating expenses			1,250,272.61	1,456.82
6. Taxes on income and revenue			5,702,951.28	5,681.89
7. Other taxes			22,832.10	26.74
8. Net profit			12,040,000.00	11,080.00
Total expenses			**84,682,343.09**	**71,890.46**

	2018 EUR	2017 EUR thousand
1. Net profit/loss	12,040,000.00	11,080
2. Adjustments to other revenue reserves	0.00	6,980
3. Balance sheet profit	**12,040,000.00**	**4,100**

Earnings	EUR	2018 EUR	2017 EUR thousand
1. Interest income from			
a) Loan and money market transactions	77,108,471.73		64,589.09
b) Fixed-interest securities	717,169.71	77,825,641.44	626.27
2. Net fee and commission income		6,065,508.41	5,720,39
3. Earnings from appreciation on receivables and certain securities as well as from the reversal of provisions in the loan business		0.00	0.00
4. Other operating earnings		791,193.24	954.71
Total earnings		**84,682,343.09**	**71,890.46**

General explanations: The registered 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 running from 1 January to 31 December 2018 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 their nominal value or acquisition cost. Credit risks were allowed for by means of individual value adjustments, country risk provisions and provisions for inherent default risks. In addition, general banking risks are covered by a prudential 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. Necessary revaluations were made up in accordance with Section 253 (5) HGB.

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. Low-value movable assets with acquisition costs between EUR 150.00 and EUR 1,000.00 were not fully paid in the year of acquisition by the end of 2017 according to Section 6 (2a) of the German Income Tax Act (EStG), but instead, based on the regulation applicable from 1 January 2008, are written down over five years in the form of a compound item at a rate of 20 % per year and recorded as an investment even if they have actually already been written off previously. After five years, a divestiture will be shown in the fixed asset schedule. Since 1 January 2018, low-value tangible investment goods with acquisition costs not exceeding EUR 800 are deducted in full as business expenses pursuant to section 6 (2)(1) EStG.

Liabilities are recorded at their settlement amount.

The accrued and deferred items include accrued net interest and commission income which were already received at the balance sheet date pursuant to section 250 (2) HGB but only constitute earnings for a specific time after this day.

Pension obligations are formed according to actuarial principles. The calculation occurs according to the Projected Unit Credit Method using biometric data based on the 2018 G mortality tables of Dr Klaus Heubeck. The calculation is based on the expected salary and wage increases of 2.1 % per annum 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 term of more than one year are now discounted at the average market interest rate from the past ten fiscal year's corresponding to their remaining term. The calculated interest rate for the ten-year average amounts to 3.21 %. In comparison, the calculation interest rate for the seven-year average amounts to 2.33 %.

Pursuant to Section 253 (1) sentence 2 HGB, provisions for taxes and other provisions are recognised at the settlement amount according to reasonable commercial assessment. Provisions with a term of more than one year are discounted at the average market interest rate from the past seven fiscal year's corresponding to their remaining term.

Currency is converted in accordance with the provisions of Section 256a HGB in conjunction with Section 340h HGB. Foreign currency receivables and foreign currency liabilities were converted using the European Central Bank's reference rate of 31 December 2018.

The cash value method is used for a 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 administration expenses and risk costs and the banking book's carrying amount. In cases where this results in a surplus of hidden losses, a provision will be made in accordance with Section 340a in conjunction with Section 249 (1) sentence 1 alternative 2 HGB.

Assets

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

	31.12.2018 EUR thousand	31.12.2017 EUR thousand
up to three months	65,575	57,206
between three months and a year	172,543	203,729
between one and five years	253,486	210,269
more than five years	15,589	12,659
	507,193	**483,863**

Loans and advances to banks include loans to shareholders in a total amount of EUR 15,674,000 (2017: EUR 15,833,000).

There are no receivables with an indefinite maturity.

Loans and advances to customers: Loans and advances to customers have the following residual terms:

	31.12.2018 EUR thousand	31.12.2017 EUR thousand
up to three months	102,169	94,207
between three months and a year	274,632	245,511
between one and five years	1,136,489	1,059,494
more than five years	606,106	587,641
	2,119,396	**1,986,853**

Debenture bonds and other fixed-interest securities: Securities of the liquidity reserve are predominantly comprised of debenture bonds and other fixed-interest securities. There was a credit-related security in the portfolio as at the balance sheet date.

	marketable		listed		not listed	
in EUR thousand	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Debenture bonds and other fixed-interest securities	55,997	37,040	52,297	33,366	3,700	3,674

This item includes securities amounting to EUR 52,348,000 (2017: EUR 33,415,000) which become due in the year following the balance sheet date.

Shares in affiliated companies: AKA holds a 100 % stake in the share capital of Grundstücksverwaltung Kaiserstrasse 10 GmbH, Frankfurt/Main, Germany (GVK) amounting to EUR 31,000. GVK is owner of the business properties at Kaiserstrasse 10 and Grosse Gallusstrasse 1-7 in Frankfurt/Main. For fiscal year 2017, the company recorded a net loss of EUR 763,000 (2016: net profit EUR 336,000). In addition, AKA holds a 100 % share (EUR 51,000) in Privatdiskont-Aktiengesellschaft (PDA), Frankfurt/Main. This company currently does not carry out any business operations. For fiscal year 2017, PDA posted a net loss of EUR 0.7 thousand (2016: net loss EUR 500). Consolidated accounts for the group consisting of AKA, GVK and PDA were not drawn up due to the negligible significance of the subsidiaries. The shares are not marketable.

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:

	31.12.2018 EUR thousand	31.12.2017 EUR thousand
Loans and advances to banks		
a) Other receivables	2,580	2,581
Loans and advances to customers		
a) Other receivables	360,537	418,100
	363,117	**420,681**

Fixed asset schedule: The schedule of fixed assets was prepared in accordance with Article 31 (6) of the German Introductory Act to the Civil Code (EGHGB).

	Shares in affiliated companies	Intangible assets	Fixed assets
Historical acquisition costs			
As at 1 January 2018	8,387	1,937	4,012
Additions	0	54	403
Disposals	0	0	174
As at 31 December 2018	8,387	1,991	4,241
Accumulated depreciation			
As at 1 January 2018	0	1,451	2,904
Additions	0	138	319
Disposals	0	0	112
As at 31 December 2018	0	1,589	3,111
Carrying amount as at 31 December 2018	**8,387**	**402**	**1,130**
Historical acquisition costs			
As at 1 January 2017	8,387	1,691	3,420
Additions	0	246	592
Disposals	0	0	0
As at 31 December 2017	8,387	1,937	4,012
Accumulated depreciation			
As at 1 January 2017	0	1,324	2,602
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**

Tangible assets include operating and office equipment with a book value of EUR 820,000 as of 31 December 2018. Land and buildings used for own activities are included in the amount of EUR 0.

Other assets: Other assets include receivables from affiliated companies amounting to EUR 244,000 (2017: EUR 236,000) as well as collateral given for irrevocable payment commitments amounting to EUR 242,000 (2017: EUR 0).

Active difference resulting from asset offsetting: The item of the active difference resulting from asset offsetting in the amount of EUR 212,000 (2017: EUR 540,000) represents the carrying amount of fund assets in excess of the settlement value of pension provisions.

Liabilities

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

	31.12.2018 EUR thousand	31.12.2017 EUR thousand
up to three months	376,895	337,189
between three months and a year	315,462	307,112
between one and five years	999,868	993,909
more than five years	573,758	549,249
	2,265,983	**2,187,459**

Amounts due to banks with an agreed term or period of notice contain amounts due to shareholders in the amount of EUR 633,847,000 (2017: EUR 496,702,000).

Assets in a total amount of EUR 1,659,848,000 (2017: EUR 1,600,560,000) were transferred as collateral.

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

	31.12.2018 EUR thousand	31.12.2017 EUR thousand
up to three months	38,620	3,436
between three months and a year	50,000	70,000
between one and five years	128,551	74,051
more than five years	39,000	31,000
	256,171	**178,487**

Amounts due to customers and unsecured amounts due to affiliated companies in the amount of EUR 4,310,000 (2017: EUR 4,497,000).

No assets were transferred as collateral.

Trust liabilities: Trust liabilities break down as follows:

	31.12.2018 EUR thousand	31.12.2017 EUR thousand
Amounts due to banks		
a) with an agreed term or period of notice	333,920	394,471
Amounts due to customers		
a) with an agreed term or period of notice	29,197	26,210
	363,117	**420,681**

Other liabilities: Other liabilities mainly include trade payables of EUR 288,000 (2017: EUR 358,000).

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

	31.12.2018 EUR thousand	31.12.2017 EUR thousand
Risk premium	5,233	5,525
Administration fee	2,016	2,449
Other	1	33
	7,250	**8,007**

Provisions for pensions and similar obligations: The pension provision is offset with fund assets as follows:

	31.12.2018 EUR thousand	31,12.2017 EUR thousand
The settlement amount of pension provisions	24,739	22,619
Fund assets	24,951	23,159
Active difference resulting from asset offsetting	**-212**	**-540**

The settlement amount of the pension provisions was offset within the framework of a Contractual Trust Arrangement (CTA) with the cover assets transferred to AKA Treuhand e.V., Frankfurt/Main. Cover assets consist of Euler Hermes-covered credit claims and cash balances with AKA Ausfuhrkredit-Gesellschaft mbH and another bank. Allocations to cover assets amounted to EUR 70,000 (2017: EUR 152,000). The amount of cover assets in excess of the settlement amount of pension provisions is classified as an active difference resulting from asset offsetting. No offsetting of expenses and earnings was carried out. The fair values of the cover assets correspond to the nominal value and therefore do not exceed it. To this extent, 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 balance sheet date. This is presented as follows:

	31.12.2018 EUR thousand	31.12.2017 EUR thousand
Pension provision valued at		
ten-year average interest rate	24,739	22,619
seven-year average interest rate	27,738	25,168
	-2,999	**-2,549**

Tax provisions: Tax provisions include provisions for current taxes amounting to EUR 1,915,000 (2017: EUR 4,541,000) and for tax risks amounting to EUR 1,213,000 (2017: EUR 2,602,000). In fiscal year 2018 tax risks were revalued, after which the corresponding provision was adjusted in terms of its amount.

Other provisions: Other provisions comprise provisions for imminent credit risks arising from the loan business in an amount of EUR 6,591,000 (2017: EUR 3,688,000). The change in the portfolio took into account the discounting of provisions for imminent credit risks from the loan business amounting to EUR 69,000 (2017: EUR 46,000) with the allocation and discounting of these provisions and in the amount of EUR 63,000 (2017: EUR 108,000) on write-back. In addition, human resource provisions in the amount of EUR 2,525,000 (2017: EUR 2,271,000) were formed.

Profit and loss account

Interest expenses: Interest expenses comprise EUR 523,000 (2017: EUR 364,000) of positive interest expenses from time deposits of banks and investment funds.

Other operating expenses: Other operating expenses primarily include interest expenses from the discounting of provisions amounting to EUR 823,000 (2017: EUR 852,000) as well as expenses for non-deductible prepaid taxes of EUR 410,000 (2017: EUR 86,000).

Tax on income and revenue: Taxes on income and revenue are only applicable to the result of normal business activity.

Interest earnings from loan and money market transactions: The negative interest income results from the reserve assets at the Bundesbank exceeding the minimum reserve requirement of the institution as well as deposits with other banks.
Interest earnings from loan and money market transactions according to their geographical origin can be broken down as follows:

	2018 EUR thousand	2017 EUR thousand
Africa	5,141	4,288
Asia and Oceania	6,890	6,918
EU	7,690	7,433
Europe (non EU)	6,160	4,195
CIS and Russia	13,315	10,567
Middle East	2,186	1,679
Near East	21,749	19,176
North and Central America	13,708	10,044
South America	269	289
	77,108	**64,589**

Income from credit and money market transactions in the amount of EUR 491,000 (2017: EUR 295,000) of negative interests mainly result from assets held at Deutsche Bundesbank exceed the minimum provision requirements.

Interest earnings from fixed-interest securities: Interest income from fixed-interest securities is attributable to the following geographic regions:

	2018 EUR thousand	2017 EUR thousand
Asia and Oceania	150	49
EU	346	54
North and Central America	221	523
	717	**626**

Net fee and commission earnings: Net fee and commission earnings results primarily from AKA's trust business as well as risk sub-participations, letter of credit confirmations and purchase agreements with domestic banks.
Net fee and commission income can be broken down according to geographic origin as follows:

	2018 EUR thousand	2017 EUR thousand
Africa	654	270
Asia and Oceania	300	136
EU	888	894
Europe outside EU	35	17
CIS and Russia	782	626
Middle East	1,235	1,111
Near East	1,847	2,306
North and Central America	88	317
South America	236	43
	6,066	**5,720**

Other operating earnings: Other operating earnings primarily resulted in 2018 from the reversal of provisions amounting to EUR 320,000 (2017: EUR 518,000) as well as the compensation for expenses of the subsidiary GVK GmbH in the amount of EUR 250,000 (2017: EUR 250,000). During the last fiscal year, interest-related earnings accrued from the discounting of provisions amounting to EUR 4,000 (2017: EUR 12,000).

Foreign currency business: The total amount of assets denominated in foreign currencies, following the deduction of adjustments, is made up of the following:

	31.12.2018 EUR thousand	31.12.2017 EUR thousand
Cash held at central banks	279	22
Loans and advances to banks	106,085	118,279
Loans and advances to customers	902,900	785,990
Debenture bonds	55,997	37,040
Trust assets	13,799	23,447
Intangible assets	0	0
Prepaid expenses	36	42
	1,079,096	**964,820**

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

	31.12.2018 EUR thousand	31.12.2017 EUR thousand
Amounts due to banks	1,069,195	949,767
Amounts due to customers	35	229
Trust liabilities:	13,799	23,447
Provisions	65	79
Deferred income	52	66
	1,083,146	**973,587**

Irrevocable loan commitments in the amount of EUR 167,213,000 (2017: EUR 173,930,000) and contingent liabilities from guarantees amounting to EUR 234,332,000 (2017: EUR 132,795,000) are posted in foreign currency as at the balance sheet date.
In principle, the receivables and liabilities in foreign currency are set out in currency, amount and due date.

Deferred taxes: Deferred taxes were not recognised in exercise of the option set out under Section 274 (1) sentence 2 HGB.

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

	31.12.2018 EUR thousand	31.12.2017 EUR thousand
Loan guarantees	205,609	156,221
Letter of credit	255,747	161,663
Guarantee facilities	35,135	35,736
	496,491	**353,620**

The utilisation risk of contingent liabilities is assessed as low, because they relate to letters of credit and guarantee facilities in connection with the financing of foreign trade.

No assets were transferred as collateral. The previous year's values were adjusted because of a reclassification of the respective subtypes.

Other obligations: Irrevocable loan commitments comprise as follows:

	31.12.2018 EUR thousand	31.12.2017 EUR thousand
Irrevocable loan commitments for the loan business	1,161,349	802,577
	1,161,349	**802,577**

Irrevocable loan commitments for the loan business are expected because essentially there are still outstanding disbursements of ECA-covered export financing which will reduce the irrevocable loan commitments accordingly as soon as the disbursement conditions are met.

Other financial obligations: In order to secure refinancing loans, security guarantees have been concluded with the Federal Republic of Germany. Within the context of supplementary guarantee provision agreements, AKA undertakes to make use of security guarantees to pay the amount guaranteed. Possible payment claims from guarantee provisioning in connection with securitisation guarantees existed at the end of the year in the amount of EUR 771,207,000 (2017: EUR 724,817,000).

During the course of the 2018 annual subscription levy for the single resolution fund, AKA made use of the opportunity to provide 15 % of the contribution as hedged payment claims. The obligation arising from these amounts to EUR 242,000 (2017: EUR 0).

Forward transactions/valuation units: At the balance sheet date there is one forward transaction with interest risks in the form of an interest rate swap. The transaction serves exclusively as a hedge against the risk of a change in future cash flows from the refinancing business.

At the balance sheet date, the interest rate swap with a nominal volume of EUR 16,000,000 (which is not part of a valuation unit) results in a positive fair value of EUR 26,000. The counterparty of the swap is one of AKA's shareholders.

Remuneration: The members of the Supervisory Board receive a remuneration of EUR 290,000 (2017: EUR 364,000) plus VAT, where applicable.

As at 31 December 2018, provisions for pension obligations to former managing directors and their surviving dependents were set aside in the amount of EUR 7,786,000 (2017: EUR 7,250,000). In 2018, remunerations amounted to EUR 635,000 (2017: EUR 631,000).

In regard to the remuneration of management, AKA makes use of the rule of exception set out in Section 286 (4) HGB in conjunction with Section 285 no. 9a HGB.

Auditor fees: Fees for the auditors of the annual financial statements for fiscal year 2017 are broken down as follows:

	2018 EUR thousand	2017 EUR thousand
Auditing of financial accounts	205	190
Other opinion and or assessment services	2	0
Tax consultancy	0	0
Other services	0	0
	207	**190**

Employees: AKA Ausfuhrkredit-Gesellschaft mbH and its subsidiaries Grundstücksverwaltung Kaiserstrasse 10 GmbH and Privatdiskont-Aktiengesellschaft as well as Liquiditäts-Konsortialbank GmbH i.L. – all based in Frankfurt/Main – are run by the same staff.

	male	female	2018 total	2017 total
Full-time	53	32	85	80
Part-time	7	21	28	26
Parental leave	0	1	1	0
	60	**54**	**114**	**106**

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
Werner Schmidt[1,2] Managing Director Deutsche Bank AG, Frankfurt/Main – First Vice Chairman –	**Frank Schütz** Director Deutsche Bank AG, Frankfurt/Main
Thomas Dusch[1,2] Senior Vice President UniCredit Bank AG, Munich – Second Vice Chairman – as of 10 April 2018	**Inés Lüdke** Managing Director UniCredit Bank AG, Munich
Philipp Reimnitz[1,2] Executive Vice President UniCredit Bank AG, Hamburg – Second Vice Chairman – until 10 April 2018	
Alexander von Dobschütz[1,2] Board Member Deutsche Kreditbank AG, Berlin – Third Vice Chairman –	**Florian Seitz** Director Bayerische Landesbank, Munich
Michael Maurer[1] Senior Vice President Landesbank Baden-Württemberg, Stuttgart	**Nanette Bubik** Vice President Landesbank Baden-Württemberg, Stuttgart
Dr. Hartmut Schott Executive Director Erste Abwicklungsanstalt, Düsseldorf as of 1 October 2018	**TBA**
Georg Lucht Executive Director Erste Abwicklungsanstalt, Düsseldorf as of 10 April 2018 until 30 September 2018	**Dr. Hartmut Schott** Executive Director Erste Abwicklungsanstalt, Düsseldorf as of 10 April 2018 until 30 September 2018
Max Niesert[1] Managing Director Portigon AG, Düsseldorf until 10 April 2018	**Georg Lucht** Executive Director Erste Abwicklungsanstalt, Düsseldorf until 10 April 2018
Winfried Münch[1] Direktor der DZ BANK AG Deutsche Zentral- Genossenschaftsbank, Frankfurt/Main	**Manfred Fischer** Direktor der DZ BANK AG Deutsche Zentral- Genossenschaftsbank, Frankfurt/Main

Full members	Deputy Members
Yoram Matalon Managing Director HSH Nordbank AG, Hamburg as of 10 April 2018	**Jutta Arlt** Department Head HSH Nordbank AG, Hamburg as of 10 April 2018 **Diana Häring** Vice President Landesbank Hessen-Thüringen Girozentrale, Frankfurt/Main until 10 April 2018
Sandra Gransberger Head of Internal Audit ODDO BHF Aktiengesellschaft, Frankfurt/Main	**Birgitta Heinze** Direktorin ODDO BHF Aktiengesellschaft, Frankfurt/Main
Knut Richter Director Landesbank Berlin AG, Berlin	**Béatrice du Hamél** Director Landesbank Berlin AG, Berlin as of 10 April 2018 **Sascha Händler** Director Landesbank Berlin AG, Berlin until 10 April 2018

[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

Events after the balance sheet date: No particular events occurred after the balance sheet date.

Appropriation of result: We propose that a part of the balance sheet profit amounting to EUR 4,100,000 be distributed to our shareholders and the resulting surplus amount of EUR 7,940,000 be transferred to other revenue reserves.

Frankfurt/Main, 11 March 2019

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 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. Turnover
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

Sales were 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 of 31 December 2018. The information was determined based on the HGB individual financial statements of AKA as of 31 December 2018[1].

Company	Country	Location	Type of Activity	Turnover	Employees	Profit before taxes	Taxes on profit	Received public aid
				EUR million		EUR million	EUR million	EUR million
EU Countries								
AKA GmbH	Germany	Frankfurt/M.	Bank	43.8	118	17.7	5.7	0.0

Return on investment: 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 of 31 December 2018, the return on investment within the meaning of Section 26a (1) sentence 4 KWG is 0.38 %.

[1] No consolidated financial statements are prepared.

"Football is simple but so exciting,
is great for socialising
and brings up lots of emotion.
I am particularly fond of
the women of 1. FFC-Frankfurt.
I'm not only a fan but also
a club member of, by the way,
the most successful
women's football club in Germany."

Sabine Ehlert

Sales Assistant, Export Finance/Structured Finance + Syndication
43 years at AKA

Cheering scorers from the stands


1. FFC
FRANKFURT
1. FFC
FRANKFURT

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 2018, and the income statement for the financial year from 1 January to 31 December 2018, 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 2018.

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 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, 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 2018. 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 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 2018, AKA Ausfuhrkredit-Gesellschaft mit beschränkter Haftung recognized EUR 28.1 million in provisions for expected credit losses in its financial statements. Of this amount, EUR 23.7 million is applicable to lump-sum country risk provisioning, EUR 3.7 million to specific allowances determined for specific cases and EUR 0.8 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 recalculated - the posted country risk provisioning for the financial year for the entire credit exposure.

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 10 April 2018. We were engaged by the Supervisory Board on 10 April 2018. We have been the auditor of AKA Ausfuhrkredit-Gesellschaft mbH without interruption since the financial year 2018.
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 am Main, 11 March 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Helke	Robbe
Wirtschaftsprüfer	Wirtschaftprüfer
[German Public Auditor]	[German Public Auditor]

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