GRENKE

GRENKE AG GROUP

FINANCIAL REPORT 2016

2016

KEY FIGURES GRENKE GROUP

	Jan. 1, 2016 to Dec. 31, 2016	Change (%)	Jan. 1, 2015 to Dec. 31, 2015	Unit
New business GRENKE Group Leasing	**1,592,506**	**17.1**	**1,359,882**	**EURk**
:: of which international	1,175,315	17.8	998,136	EURk
:: of which franchise international	37,525	60.5	23,381	EURk
:: of which Germany*	379,666	12.2	338,365	EURk
Western Europe (without Germany)**	499,835	12.8	443,158	EURk
Southern Europe**	443,637	27.6	347,659	EURk
Northern / Eastern Europe**	241,537	15.8	208,636	EURk
Other regions**	27,831	26.1	22,064	EURk
New business GRENKE Group Factoring (incl. collection services)	**356,222**	**9.7**	**324,632**	**EURk**
:: of which Germany	153,177	23.5	124,066	EURk
:: of which international	144,673	–6.4	154,636	EURk
:: of which franchise international	58,372	27.1	45,930	EURk
GRENKE Bank				
Deposits	417,088	19.4	349,304	EURk
New business start-up financing (incl. microcredit business)	25,282	28.9	19,610	EURk
Contribution margin 2 (CM2) on new business				
GRENKE Group Leasing	**265,942**	**8.3**	**245,493**	**EURk**
:: of which international	211,482	8.9	194,273	EURk
:: of which franchise international	7,716	73.2	4,455	EURk
:: of which Germany*	46,744	0.0	46,765	EURk
Western Europe (without Germany)**	86,756	1.7	85,310	EURk
Southern Europe**	81,111	15.6	70,175	EURk
Northern / Eastern Europe**	45,816	16.9	39,201	EURk
Other regions**	5,515	36.4	4,042	EURk
Further information leasing business				
Number of new contracts	182,655	14.9	159,000	units
Share of IT products in lease portfolio	78	–3.7	81	percent
Share of corporate customers in lease portfolio	100	0.0	100	percent
Mean acquisition value	8.7	1.2	8.6	EURk
Mean term of contract	48	0.0	48	months
Volume of leased assets	4,863	17.2	4,149	EURm
Number of current contracts	566,086	15.0	492,455	units

* including Europa Leasing GmbH

** Regions: Western Europe (without Germany): Austria, Belgium, France, Luxembourg, the Netherlands, Switzerland
Southern Europe: Croatia, Italy, Malta, Portugal, Slovenia, Spain
Northern / Eastern Europe: Denmark, Finland, Ireland, Norway, Sweden, UK / Czech Republic, Hungary, Poland, Romania, Slovakia
Other regions: Brazil, Canada, Chile, Dubai, Singapore, Turkey

GRENKE Group = GRENKE Consolidated Group including franchise partners
GRENKE Consolidated Group = GRENKE AG and all consolidated subsidiaries and structured entities according to IFRS

KEY FIGURES
GRENKE CONSOLIDATED GROUP

	Jan. 1, 2016 to Dec. 31, 2016	Change (%)	Jan. 1, 2015 to Dec. 31, 2015	Unit
Key figures income statement				
Net interest income	217,790	13.9	191,204	EURk
Settlement of claims and risk provision	55,089	–7.2	59,369	EURk
Profit from service business *	59,279	16.7	50,801	EURk
Profit from new business	58,799	17.4	50,068	EURk
Gains (+) / losses (–) from disposals	–5,985	829.3	–644	EURk
Other operating income	4,049	–26.8	5,531	EURk
Cost of new contracts	40,244	14.6	35,107	EURk
Cost of current contracts	12,453	12.9	11,031	EURk
Project costs and basic distribution costs	42,193	2.0	41,357	EURk
Management costs	38,971	24.3	31,343	EURk
Other costs	8,455	–10.2	9,416	EURk
Operating result	136,527	24.9	109,337	EURk
Other financial result (income (–) / expense (+))	1,123	–1.159.4	–106	EURk
Income / expenses from fair value measurement	–868	–4.922.2	18	EURk
EBT (earnings before taxes)	134,536	22.9	109,461	EURk
Net profit	**103,234**	**27.7**	**80,845**	**EURk**
Earnings per share (according to IFRS)	**6.87**	**26.5**	**5.43**	**EUR**
Further Information				
Dividends	1.75	16.7	1.50	EUR
Embedded value, leasing contract portfolio (incl. equity before taxes)	1,030	14.7	898	EURm
Embedded value, leasing contract portfolio (incl. equity after taxes)	948	15.3	822	EURm
Cost / income ratio	51.2	–5.2	54.0	percent
Return on equity (ROE) after taxes	15.0	9.5	13.7	percent
Average number of employees	1,031	11.1	928	employees
Staff costs	70,624	11.8	63,190	EURk
– of which total remuneration	58,003	11.8	51,902	EURk
– of which fixed remuneration	43,577	12.8	38,630	EURk
– of which variable remuneration	14,426	8.7	13,272	EURk

* Previous year's designation: "profit from insurance business"

GRENKE Group = GRENKE Consolidated Group including franchise partners

GRENKE Consolidated Group = GRENKE AG and all consolidated subsidiaries and structured entities according to IFRS

"GRENKE IS AND REMAINS EXCEPTIONALLY POSITIONED FOR CONTINUED PROFITABLE GROWTH."

INHALT

LETTER TO SHAREHOLDERS FROM THE BOARD OF DIRECTORS

Dear Shareholders, Ladies and Gentlemen,

2016 was a year in which the world economy was on shaky footing. For GRENKE, however, it was a year marked by renewed strong growth. The GRENKE Group achieved a 16 percent rise in new business amid a challenging environment. At EUR 1,974.0 million, the volume acquired was just under the EUR 2 billion threshold. This meant that we were once again able to grow significantly faster than our medium-term growth target of at least twelve percent per year. We are proud of this performance. Not least of which is the result of our value-based business model, which brilliantly proved itself once again.

New business at GRENKE Group Leasing was absolutely in line with our expectations rising EUR 232.6 million to EUR 1,592.5 million. This increase of 17 percent was fully in line with our 2016 forecast for growth between 16 and 20 percent. We realised strong growth especially in Southern Europe, particularly in Italy and Spain. We also had very satisfactory performance in our home market of Germany where we accomplished double-digit growth amid continued intense competition. New business growth in our Factoring segment clearly lagged our expectations. Although all of the purchased receivables demonstrated a high level of credit quality, the strong comparisons from the volume acquired in Switzerland in the prior year still resulted in comparatively low nominal growth in the reporting year.

GRENKE Bank was able to expand three of its collaborations with federal (KfW) and state development banks in the reporting year through the arrangement of new global loans. The solutions offered by these collaborations are aimed at small and medium-sized enterprises, self-employed professionals and entrepreneurs who finance new business purchases through leasing. GRENKE Bank has been offering low-interest financing together with regional development banks since 2010 by means of promotional vouchers. This has resulted in over 21,000 lease contracts to date.

A majority of our growth is generated from our demand-oriented and ever-evolving range of offers – some of which span far beyond our traditional leasing business. In this respect, the shareholders' decision to change the Company's name to GRENKE AG is an indication of what to expect in the future. We broadened the diversification our product range in the reporting year by making a strategic investment in Finanzchef24 GmbH via GRENKE BANK AG. Founded in 2012, Finanzchef24 is the first electronic insurance broker for entrepreneurs and the self-employed professionals and operates an online finance portal. We also took advantage of another strategic option by acquiring Europa Leasing GmbH, which substantially strengthens our market position in the small ticket leasing of medical equipment. The business models of both companies have similar settlement processes for leasing, which presents us with some highly attractive growth opportunities.

We continued to experience strong momentum in terms of our international expansion in the 2016 fiscal year, opening a total of nine new locations European-wide as part of our cell division strategy. In addition, our customers in Poland have been profiting from our comprehensive range of factoring products since the end of 2016.

GRENKE is and remains exceptionally positioned for continued profitable growth. In addition to cell divisions in existing markets, we plan to launch our leasing products in Australia in the 2017 fiscal year and thereby enter a new and attractive market. We will also roll out our range of factoring offers in Italy. In 2017, we expect new business growth in our leasing business to range between 11 to 16 percent and new business growth in our factoring business to fall in the range of 12 and 20 percent.

After achieving a 28 percent rise to EUR 103.2 million in the GRENKE Consolidated Group's net profit in the reporting year exceeding our revised forecast raised with the half-year results, we expect net profit in the 2017 fiscal year to range between EUR 113 and 123 million. This would correspond to a rise of at least nine percent. In view of the favourable development in the reporting year and the continued positive outlook for the future, the Supervisory Board and the Board of Directors plan to propose a dividend of EUR 1.75 per share to the GRENKE AG Annual General Meeting. The previous year's dividend was EUR 1.50 per share.

On behalf of the entire Board of Directors, I would like to thank our employees for their commitment and contribution to our outstanding business development. I would also like to extend my personal thanks to the members of the Supervisory Board for their valuable support. I would like to thank our shareholders for their continued confidence and the loyalty to our Company. And finally, I would like to welcome my longstanding and valued colleague Mr Sebastian Hirsch to the Board of Directors of GRENKE AG. Mr Hirsch began his career at the Company in 2004, and since that time has proven himself in various roles in the area of finance.

Wolfgang Grenke
Chairman of the Board of Directors

THE BOARD OF DIRECTORS OF GRENKE AG

WOLFGANG GRENKE

Chairman of the Board of Directors
Chief Executive Officer (CEO)

ANTJE LEMINSKY

Deputy Chairman of the Board of Directors

GILLES CHRIST

Member of the Board of Directors

"THE INTERNATIONAL PRESENCE OF OUR BUSINESS WILL CONTINUE TO BE A DECISIVE SUCCESS FACTOR IN THE FUTURE."

SEBASTIAN HIRSCH

Member of the Board of Directors
(since January 1, 2017)

MARK KINDERMANN

Member of the Board of Directors

The members of the Board of Directors in the 2016 fiscal year were Wolfgang Grenke (Chairman), Antje Leminsky (Deputy Chairman), Gilles Christ, Jörg Eicker and Mark Kindermann

REPORT OF THE SUPERVISORY BOARD

This results presented in this annual financial report are further confirmation of the sustainable success of GRENKE AG's growth model. While maintaining its consistent high profitability, your company, dear shareholders, generated another year of double-digit growth. Neither the financial crisis after the Lehman bankruptcy nor the low interest rates of the last few years could hinder the enduring growth story which began with the Company's initial public offering in the year 2000. This success is mainly the result of following a consistent strategy: We target only small and medium-sized enterprises; the amounts financed are small, averaging no more than EUR 8,700 per object; the product range and processes are entirely electronic; we now include banking and factoring products alongside those of leasing; and we transformed our German business model to a model that enjoys significant international success. In the following, my fellow Supervisory Board members provide you not only with the important formal information but also some interesting information on our business. Therefore, we ask that you please read all of the information.

In fiscal year 2016, the Supervisory Board of GRENKE AG performed the activities required of it by law and under the Articles of Association. The Supervisory Board's collaboration with the Board of Directors was on an amicable and faithful basis at all times. It monitored the management of the business and advised it regularly. The Board of Directors informed the Supervisory Board promptly and fully on all important issues and involved it in all decisions of fundamental significance to the Company.

The Board of Directors and the Supervisory Board coordinated closely particularly in matters relating to the Consolidated Group's strategic direction. The Board of Directors informed the Supervisory Board in detail on all of the interim developments of the GRENKE Consolidated Group and those of GRENKE BANK AG and GRENKEFACTORING GmbH.

The Supervisory Board carefully reviewed the Board of Directors' reports with regard to their plausibility. The subject and scope of reporting by the Board of Directors fully met the Supervisory Board's requirements at all times. To the extent required by law and the Articles of Association, the Supervisory Board closely examined, discussed, and subsequently voted on the Board of Directors' reports and resolution proposals. Matters requiring approval were submitted for resolution in a timely manner.

As the Chairman of the Supervisory Board, I also kept myself informed of current business developments outside of the scheduled Supervisory Board meetings, which included developments in the banking business as well as key transactions. I was also thoroughly informed by the Board of Directors about transactions of special significance. The key issues addressed in personal discussions with the Board of Directors included acquisitions and investments, refinancing decisions, compliance issues, internal controlling as well as personnel issues.

In addition, the planned progressive change in the Company's name from GRENKELEASING AG to GRENKE AG was discussed ahead of the Annual General Meeting on May 3, 2016. Given that the Consolidated Group's growth is now generated with a range of products that spans far beyond the traditional leasing business. Today, the GRENKE brand stands for the best service and the highest quality internationally when it comes to financial services for small and medium-sized enterprises. The change in the Company's name now also reflects this message. Together with the Board of Directors, I discussed the management proposal to our shareholders offering them the renewed option to receive the dividend exclusively in cash or partly in cash and partly in the form of shares of the GRENKE AG. The shareholders of GRENKE AG welcomed the resolutions proposed by the Board of Directors and Supervisory Board by a large majority.

During the reporting year, the Supervisory Board monitored the Consolidated Group-wide risk management system and the internal control systems in the internal audit, accounting and compliance areas. In the compliance area, this monitoring also included a review of the adequacy of the management procedure applied as well as the compliance with the relevant provisions of the German Banking Act (KWG compliance). The Supervisory Board also monitored the operating risk control system as well as the risk strategy and the appropriateness of the risk management processes and their implementation. As part of this process, the Supervisory Board received reports from the Board of Directors.

GRENKE Consolidated Group's liquidity and refinancing situation were regular topics of discussion for the Supervisory Board. The Consolidated Group's refinancing was secured throughout the 2016 fiscal year.

Other common issues discussed by the Supervisory Board included the Company's current business performance, sales development, management issues, the monitoring of international entities, the state of the Company's planning and personnel development issues. In the discussion on personnel issues, a special importance was placed once again on the issue of the balance of women in management positions. The goal of the GRENKE Consolidated Group is to have one-quarter of its management positions held by women. Recent studies conducted by renowned market experts confirm that GRENKE has one of the highest ratios of women in management among the major listed companies in Germany.

The digitisation of the business model has been at the core of GRENKE AG's existence since its establishment. Digital products and processes have been and continue to be the key to maximising our value to the customer, being a cost leader in the financial services sector and to the successful international rollout of our business model. This is the reason the Supervisory Board deals regularly with IT issues. Discussions in the reporting year included, among others, the status and progress of current IT projects as well as the medium-term IT strategy of the GRENKE Consolidated Group, particularly in view of its progressing internationalisation and growing product diversity. The Supervisory Board also addressed GRENKE Consolidated Group's further strategic development, particularly the development of the franchise companies as a whole and the decision to acquire franchises in Turkey, Hungary and Malta. The establishment of an administrative and financing subsidiary in Brazil was also an agenda item, as was the cooperation with the digital insurance broker and online finance portal Finanzchef24 GmbH and the takeover of Europa Leasing GmbH, which specialised in lease financing for medical devices.

Mr. Jörg Eicker has left the Board of Directors of GRENKE AG by mutual consent effective December 31, 2016. The Supervisory Board and the Board of Directors thanked Mr. Eicker for his contribution to the positive and successful business development and positioning of GRENKE AG over the last several years. The Supervisory Board appointed Mr. Sebastian Hirsch to the GRENKE AG Board of Directors effective January 1, 2017. In this context, the Supervisory Board has discussed and approved the new division of responsibilities in the Board of Directors. Mr. Hirsch is now responsible for the areas Controlling, M&A and Treasury and Mr. Wolfgang Grenke is responsible for Investor Relations.

On February 4, 2016, the Board of Directors together with the Supervisory Board submitted GRENKELEASING AG's Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act. Barring the exceptions contained in the Declaration, the Company has complied with the recommendations of the "Government Commission on the German Corporate Governance Code". In this Annual Financial Report for the 2016 fiscal year, the Board of Directors' report on corporate governance at GRENKE AG was also submitted on the behalf of the Supervisory Board.

The Supervisory Board held five meetings in fiscal year 2016. The meetings took place on February 4, May 2, June 22 (extraordinary), July 9 - 11 and November 21. The only item on the agenda for the meeting in June was the resolution on the acquisition of an interest in Finanzchef24 Gmbh. All members were present at each of the Supervisory Board meetings.

In accordance with the Articles of Association, the Supervisory Board of GRENKE AG consists of six members.

The Supervisory Board consisted of the following members in the 2016 fiscal year:

- Prof. Dr. Ernst-Moritz Lipp, Chairman
- Gerhard E. Witt, Deputy Chairman
- Tanja Dreilich
- Dr. Ljiljana Mitic
- Florian Schulte
- Erwin Staudt

In accordance with its Rules of Procedure, the Supervisory Board formed two committees to allow it to perform its duties efficiently: the Audit Committee and the Personnel Committee (Executive Committee). The chairpersons of the committees reported to the full Supervisory Board at its meetings with respect to the committees' work.

The Audit Committee consists of the following members:

- Gerhard E. Witt, Chairman
- Prof. Dr. Ernst-Moritz Lipp
- Tanja Dreilich

The Audit Committee primarily deals with the issues of internal and external accounting, the corporate planning policies, corporate risk management and compliance. Its members have expertise in these areas. The Audit Committee commissioned the auditor and determined the focus of the audit. The Committee verified the auditor's independence and concluded the auditor's fee agreement. In the reporting year, the Audit Committee did not learn of any circumstances that would call the independence of the auditor into question.

The Audit Committee prepared the Supervisory Board meeting for the adoption of the annual financial statements and the approval of the consolidated financial statements. In the presence of the auditor, the 2015 annual financial statements were addressed in depth. The Audit Committee and the Board of Directors also thoroughly discussed the quarterly financial statements to be published.

The Personnel Committee (Executive Committee) consists of the following three members:

- Prof. Dr. Ernst-Moritz Lipp, Chairman
- Erwin Staudt
- Gerhard E. Witt

The Personnel Committee primarily deals with personnel decisions made by the Supervisory Board but is also responsible for proposals on the conclusion, amendment and termination of employment agreements with the members of the Board of Directors.

The annual financial statements and the consolidated financial statements of GRENKE AG prepared by the Board of Directors as per December 31, 2016, the combined presentation of the management reports of GRENKE AG and of the GRENKE Consolidated Group for fiscal year 2016 in accordance with Section 315 (3) and Section 298 (3) HGB, and the Board of Directors' proposal on the appropriation of GRENKE AG's unappropriated surplus were all submitted to the Supervisory Board in a timely manner.

The annual financial statements, as well as the condensed financial statements and interim management report for the first six months of the 2016 fiscal year were reviewed and audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart. The accounting of the separate financial statements of GRENKE AG was in accordance with the provisions of the German Commercial Code (HGB), taking into consideration the regulations for bank accounting. The HGB annual financial statements as per December 31, 2015, were audited in accordance with the rules and regulations of Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW).

The consolidated financial statements and the group management report for the January 1 through December 31, 2016, fiscal year were prepared in accordance with Section 315 a (1) HGB on the basis of the International Reporting Standards as adopted in the EU and in accordance with German Accounting Standard No. 20. The consolidated financial statements were audited in accordance with the rules and regulations of Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the IDW (IDW PS 200). Unqualified audit opinions were issued for both the annual financial statements of GRENKE AG and the consolidated financial statements of the GRENKE Consolidated Group.

The Supervisory Board thoroughly reviewed the financial statements submitted to it by the Board of Directors and the auditor and discussed the result at its meeting on February 1, 2017. The auditor responsible took part and reported on the audit's key findings. After completing its own review, the Supervisory Board did not raise any objections to the result of the audit of the annual financial statements by the auditor and therefore adopted GRENKE AG's annual financial statements and approved GRENKE AG's consolidated financial statements. The Supervisory Board endorsed the Board of Directors' proposal on the appropriation of GRENKE AG's unappropriated surplus.

At the same meeting on February 1, 2017, the Supervisory Board dealt with the mandatory disclosures in accordance with Section 289 (4) and Section 315 (4) HGB and the related report. The Supervisory Board has reviewed these disclosures and explanations, which it believes are presented in full in the combined management report, and has thereby adopted them.

The Supervisory Board would like to extend its sincere appreciation to all employees of the GRENKE Group and its franchise businesses, which now represent GRENKE in 30 countries worldwide. The Supervisory Board would also like to thank the members of the Board of Directors for their personal dedication and valued contribution. The Board’s and the employees’ commitment were vital in making the 2016 fiscal another successful year for GRENKE. Their readiness to solidify the worldwide success of the GRENKE brand with their high motivation gives the Supervisory Board tremendous confidence in the Company’s future.

Baden-Baden, February 1, 2017
On behalf of the Supervisory Board

Prof. Dr. Ernst-Moritz Lipp
Chairman of the Supervisory Board

THE SUPERVISORY BOARD OF GRENKE AG

Name / Place of residence	Function / Profession	Additional Supervisory and Advisory Board mandates
:: Prof. Dr. Ernst-Moritz Lipp Baden-Baden Born 1951 First elected: 2003 Elected until 2018 Annual General Meeting	Chairman of the Supervisory Board, Professor of International Finance, Managing Director of ODEWALD & COMPAGNIE Gesellschaft für Beteiligungen mbH	GRENKE BANK AG, Baden-Baden; Oberberg Klinik Holding GmbH, Berlin
:: Gerhard E. Witt Baden-Baden Born 1945 First elected: 1997 Elected until 2018 Annual General Meeting	Deputy Chairman of the Supervisory Board, certified public accountant and tax advisor, legal advisor for succession, corporate and bankruptcy law	GRENKE Investitionen Verwaltungs KGaA, Baden-Baden
:: Tanja Dreilich Munich Born 1969 First elected: 2015 Elected until 2019 Annual General Meeting	Managing Director and CFO of Kirchhoff Ecotec GmbH, Managing Director and CFO of Kirchhoff Automotive Verwaltungs-gesellschaft mbH	--
:: Dr. Ljiljana Mitic Munich Born 1969 First elected: 2015 Elected until 2019 Annual General Meeting	Independent business consultant specialised in IT, financial services and start-ups	--
:: Florian Schulte Baden-Baden Born 1971 First elected: 2010 Elected until 2019 Annual General Meeting	Managing Director of Fines Holding GmbH, Managing Director of S.K. Management- und Beteiligungs GmbH	Global Group Dialog Solutions AG, Idstein; Syntellix AG, Hannover
:: Erwin Staudt Leonberg Born 1948 First elected: 2005 Elected until 2019 Annual General Meeting	Degree in economics	PROFI Engineering Systems AG, Darmstadt; USU Software AG, Möglingen; Hahn Verwaltungs-GmbH, Fellbach; Interstuhl Büromöbel GmbH & Co. KG, Meßstetten-Tieringen

CORPORATE GOVERNANCE REPORT

A feeling of responsibility guides all of GRENKE Consolidated Group's activities. The responsible and effective leadership of the Consolidated Group is an essential part of our corporate philosophy. The Supervisory Board, Board of Directors and our senior executives all identify with the principles of good corporate governance, which conform to the German Corporate Governance Code (GCGC). They are committed to full-scale compliance of ethical and legal rules, codes of conduct and all relevant laws and know that good corporate governance is fundamental in building and maintaining trust in the Company. This is especially true for stakeholders – current and future customers, employees, business partners and investors – who are critical to the Company's long-term success.

The Supervisory Board, Board of Directors and senior management are committed to value-oriented management as well as transparent leadership and control.

GRENKE AG complies with the recommendations of the GCGC in the version dated May 5, 2015, with only a few justified exceptions. The Board of Directors and the Supervisory Board have thoroughly discussed their compliance with the Code and have adopted the Declaration of Conformity that has been reproduced at the end of this corporate governance report. The declaration is also available on the GRENKE AG website.

Consolidated Group Management and Monitoring

The Board of Directors of GRENKE AG currently consists of five members. The Supervisory Board is comprised of six members. The target set by the Supervisory Board for female representation of at least 20 percent on the Board of Directors and 33 percent on the Supervisory Board has been met. About half of all employees are female. The Supervisory Board therefore considers the current target for female representation as a minimum target that should move higher over the long term.

Supervisory Board

During the 2016 fiscal year, the Board of Directors provided the Supervisory Board with regular, detailed and extensive information on the Company's economic situation, the status of corporate planning and current events. In this context, a regular and key component of these reports was information on new business, sales, IT decisions and the refinancing situation. The Supervisory Board coordinated strategic developments with the Board of Directors and discussed issues related to risk management, compliance, risk provisioning and the internal control and internal audit systems.

GRENKE AG's Supervisory Board formed two committees to allow it to perform its duties efficiently. These committees have been given certain authorisations that comply with the Supervisory Boards' Rules of Procedure. The committees prepare the relevant issues and resolutions that are to be discussed in the plenum. The committees' chairpersons report to the Supervisory Board plenum on the work of the committees.

Audit Committee

The Audit Committee consists of three members who have particular expertise in accounting, corporate planning, risk management and compliance. The Committee primarily deals with external and internal accounting issues, corporate planning system and risk management. It reviews and monitors the auditor's independence in accordance with Article 7.2.1 of the GCGC. The Committee also determines the audit's focus and is responsible for and agrees on the auditor's fee.

Furthermore, it prepares the Supervisory Board's decision on the adoption of the annual financial statements and the approval of the consolidated financial statements. In the context of the tasks of the Supervisory Board under the GCGC, the Audit Committee also deals with compliance and compliance management issues. The Board of Directors regularly reports to the Audit Committee on the Company's compliance situation, including compliance with the KWG.

Personnel Committee (Executive Committee)

The Personnel Committee is comprised of three members. The main task of the Committee is to prepare the Supervisory Board's personnel decisions and submit proposals for concluding, amending, and terminating employment agreements with members of the Board of Directors.

Board of Directors

The Board of Directors autonomously manages the GRENKE Consolidated Group and is responsible for its operating management, implementing its strategic direction and compliance with the principles of corporate policy. The Board of Directors also prepares the annual financial statements of GRENKE AG, and the Consolidated Group's quarterly statements, half-year and annual financial statements. The Board of Directors reports to the Supervisory Board regularly and comprehensively through reports and meeting documents on issues such as the Company's strategy and its implementation, planning, business development, risk situation, compliance, financial and earnings situations, strategic and operational business risks and their management. Key decisions made by the Board of Directors, such as those on acquisitions and financing, require the approval of the Supervisory Board. The Board of Directors' Rules of Procedure contains a list of transactions requiring approval. The Board of Directors and the Supervisory Board are liable to pay damages to the Company in the event of culpable neglect.

Remuneration Report (Part of the Combined Management Report)

Remuneration of the Board of Directors

	Fixed remuneration components		Variable remuneration components				
			Annual remuneration components		Long-term remuneration components	Total	Total
EUR	Fixed salary and allowances	Fringe benefits	Performance bonus	Bonus	Share-based compensation	2016	2015
Christ	165,832.61	44,154.00	99,161.61	66,333.04		**375,481.26**	**355,050.04**
Eicker	297,000.00	320,221.50*	60,101.54	80,400.00	–86.000	**671,723.04**	**535,990.06**
Grenke	300,000.00	47,194.92	179,407.50	120,000.00		**646,602.42**	**646,120.92**
Kindermann	169,999.92	34,459.64	101,664.21	67,999.97		**374,123.74**	**331,204.81**
Leminsky	305,000.04	17,594.88	77,891.81	102,000.00		**502,486.73**	**606,350.94**
Total	**1,237,832.57**	**463,624.94**	**518,226.67**	**436,733.01**	**–86.000**	**2,570,417.19**	**2,474,716.77**

* includes a severance payment of EUR 300k as per December 31, 2016

The principles of the remuneration system for the Board of Directors provide for fixed remuneration components that include non-performance-related fixed remuneration, allowances, fringe benefits such as company cars and the payment of insurance premiums as well as performance-related remuneration components.

The structure of the remuneration system aims to promote the Consolidated Group's long-term success and create an incentive to assume only those risks that are easily manageable by using statistical tools and generating an appropriate return for the respective risk. No incentive is provided for assuming inappropriate risk. GRENKE AG's regulatory capital is not jeopardised by its remuneration practice and does not restrict the long-term retention of its equity.

The criteria for the variable remuneration components are defined annually in advance. These criteria are based on the increase in the GRENKE Consolidated Group's operating result ("EBT" – Earnings Before Taxes) and the development of the key performance indicators forming part of the GRENKE Balanced Scorecard (BSC). The attainment of the EBT growth target is measured retrospectively on an annual basis. Failure to achieve the targets means that no variable remuneration will be paid. The relevant BSC criteria correspond to the key performance indicators measuring the Consolidated Group's long-term success and thereby the long-term increase in shareholder value. These criteria also include the development in the number of lease contracts, the volume of new business, the contribution margins and the development of losses. The fulfilment of the BSC criteria is assessed retrospectively each quarter.

The Supervisory Board of GRENKE AG concluded phantom stock agreements with several members of the Board of Directors.

As per December 31, 2016, such agreements were in place with all current members of the Board of Directors with the exception of Mr. Grenke. The value of these phantom stock agreements at the end of the fiscal year was EUR 0k (December 31, 2015: EUR 225k) Payments made under these agreements during the year amounted to EUR 139k. The related expenses were recognised in the prior year.

While the agreement with Ms. Leminsky applies to fiscal years 2015 through 2017, the agreements with Mr. Christ, Mr. Eicker and Mr. Kindermann apply to fiscal years 2016 through 2018. Under these agreements, the Board members are each entitled to payments (tranches) for the respective fiscal years equal to the increase in the value of 20,000 shares of GRENKE AG (6,000 shares in the case of Mr. Kindermann) in relation to a defined basic share price. The basic share price is the arithmetic mean of the XETRA closing prices on all trading days from December 1 to December 23 of the respective prior year. The basic share price for the 2016 fiscal year amounts to EUR 180.42.

The payment entitlement is limited in its amount and subject to the statutory provisions for appropriate remuneration, the statutory maximum level of variable remuneration components and especially the rules of the German Banking Act. The maximum payment under these agreements is limited to EUR 400,000 (EUR 150,000 in the case of Mr. Kindermann) for the three tranches. This maximum payment applies to the respective agreement in its entirety, i.e. the total payment for the three tranches may not exceed the maximum payment amount. If an annual tranche exceeds the maximum total entitlement and the agreement is still in force for several more years (tranches), then no further claims may be acquired in the future. The participants in the programme are required to invest the respective net amount paid plus a personal contribution of 25 percent of that amount in GRENKE AG shares. The Company is entitled, but not required, to render the payment in whole or in part in the form of shares instead of cash for one or more tranches. In this case, a personal contribution is not required. The shares are subject to a vesting period of four years. Given the sharp increase in the share price in 2015, Ms. Leminsky already reached the maximum payment amount in fiscal year 2015. She did not acquire any additional entitlements in the 2016 fiscal year and will also not acquire any in the current 2017 fiscal year.

The amount of EUR 86k set aside in the previous year as per December 31, 2015 under the agreement with Mr. Eicker (2016 tranche) that went into effect on October 1, 2015, will not be paid due to the share price development in the 2016 measurement period. Future entitlements from these tranches were forfeited with Mr. Eicker’s resignation from the Board of Directors effective December 31, 2016.

GRENKE AG has also taken out a directors’ and officers’ liability insurance policy for members of the Board of Directors. This policy prescribes a fixed ten percent deductible per claim for each member of the Board of Directors and is limited to a maximum of one and a half times the annual fixed remuneration for all claims per year. If employment is terminated, the service agreements contain a non-compete clause that provides compensation payments for a period of two years (cap). The amount of the payments is limited to 50 percent of the most recent annual remuneration (cap). Compensation payments are based on the fixed and variable remuneration actually paid in the fiscal year preceding termination. No settlement agreements are in place. During the reporting year, no members of the Board of Directors received benefits or corresponding commitments from third parties based on their position as a member of the Board of Directors.

Remuneration of the Supervisory Board

Name	Function	Basic remuneration 2016	Audit Committee	Personnel Committee	Variable remuneration	Travel expenses	Total 2016*	Total 2015*
EUR								
Prof. Dr. Lipp	Chairman	22,500.00	2,000.00	1,500.00	26,000.00	1,217.35	**53,217.35**	**52,131.61**
Witt	Deputy Chairman	15,000.00	3,000.00	1,000.00	19,000.00	604.96	**38,604.96**	**38,000.00**
Dreilich	Member (since May 12, 2015)	15,000.00	2,000.00	0.00	17,000.00	4,128.39	**38,128.39**	**23,218.19**
Dr. Mitic	Member (since May 12, 2015)	15,000.00	0.00	0.00	15,000.00	594.00	**30,594.00**	**19,567.88**
Münch	Member (until May 12, 2015)	0.00	0.00	0.00	0.00	136.20	**136.20**	**12,734.86**
Schulte	Member	15,000.00	0.00	0.00	15,000.00	629.01	**30,629.01**	**30,000.00**
Staudt	Member	15,000.00	0.00	1,000.00	16,000.00	604.96	**32,604.96**	**32,000.00**
Prof. Dr. Wörn	Member (until May 12, 2015)	0.00	0.00	0.00	0.00	0.00	**0.00**	**11,237.00**
Total		**97,500.00**	**7,000.00**	**3,500.00**	**108,000.00**	**7,914.87**	**223,914.87**	**218,889.54**

* Fixed remuneration (basic remuneration, Audit and Personnel Committee), variable remuneration and travel expenses

GRENKE AG's Articles of Association resolved by the Company's shareholders also govern the remuneration of Supervisory Board members. At the Annual General Meeting on May 12, 2015, a resolution was made with regard to the adjustment to Supervisory Board compensation and the corresponding change in the Articles of Association. According to this resolution, for each full fiscal year, members of the Supervisory Board are to receive fixed compensation of EUR 15,000 and the chairperson is to receive EUR 22,500. Members of the Audit Committee receive an additional EUR 2,000, and the Committee chairpersons receive an additional EUR 3,000. The fixed compensation of Supervisory Board members who are also members of the Personnel Committee increased by EUR 1,000 and the chairperson's fixed compensation increased by EUR 1,500.

The remuneration for committee memberships and chairmanships are calculated on a pro rata basis for members who serve on the Supervisory Board for only part of a fiscal year. The Supervisory Board members also receive a variable component when shareholders are paid a dividend of more than EUR 0.70 per share.

In this case, remuneration is increased by the percentage by which the dividend per share exceeds EUR 0.70, whereby the variable component cannot exceed 100 percent of fixed remuneration.

GRENKE AG has also taken out a directors' and officers' liability insurance policy for Supervisory Board members. This policy prescribes a fixed ten percent deductible per claim for each member and is limited to a maximum of one and a half times the annual fixed remuneration for all claims per year. The Company also reimburses the members of the Supervisory Board for their cash expenses and VAT insofar as they are entitled to invoice the tax separately and actually do so.

Share Transactions of Governing Bodies

Detailed information concerning the shareholding of governing bodies as per December 31, 2016 is contained in the following tables. Information on share transactions by governing bodies during the reporting year can be found on the Company's homepage www.grenke.de/en under the section "Investor Relations/Corporate Governance".

Shareholdings of the Board of Directors

	Number of shares held as per December 31	
	2016	**2015**
Gilles Christ	2,912	5,112
Jörg Eicker	5,422	5,172
Wolfgang Grenke*	0	0
Mark Kindermann	53,172	53,172
Antje Leminsky	3,693	2,823
Total	**65,199**	**66,279**

* direct shareholding

Shareholdings of the Supervisory Board

	Number of shares held as per December 31	
	2016	**2015**
Tanja Dreilich	1,600	390
Prof. Dr. Ernst-Moritz Lipp	36,118	34,118
Dr. Ljiljana Mitic	468	468
Florian Schulte	2,365	2,365
Erwin Staudt	2,009	1,009
Total	**42,560**	**38,350**

Accounting, Financial Statement Audits and Financial Reporting

GRENKE Consolidated Group's management report and the management report for the separate financial statements of GRENKE AG are prepared in accordance with Section 315 (3) and Section 298 (3) HGB and summarised in a combined section. Any substantial differences arising between the corporate entities are discussed in a separate section. The annual financial statements of GRENKE AG and the financial statements of the GRENKE Consolidated Group for fiscal year 2016 are published jointly in the Federal Gazette (Bundesanzeiger).

The accounting policies applied to the consolidated financial statements for the January 1 to December 31, 2016 fiscal year were applied in accordance with the rules and regulations of International Financial Reporting Standards as adopted in the European Union. In preparing the consolidated financial statements and the group management report, the Company was also subject to and applied the provisions of German commercial law under Section 315 a (1) HGB. The consolidated financial statements were audited in accordance with the rules and regulations of Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the IDW (IDW PS 200). The Audit Committee ensures the independence of the auditor and recommends an auditor for election to the Annual General Meeting. The election of the auditor is carried out at the Annual General Meeting in accordance with statutory provisions.

Transparency and Reporting to Shareholders

GRENKE uses the internet to promptly, impartially, and thoroughly report to shareholders and the public. All press releases, financial reports and quarterly statements, as well as notifications under the Market Abuse Regulation (MAR) and the German Securities Trading Act (WpHG) are published in German and English. The Declaration of Conformity under the GCGC is available on GRENKE's website (www.grenke.de/en/investor-relations). The Company's website also provides information to shareholders and the public on the GRENKE Consolidated Group, its organisational structure and management members. Company notifications are published in the Federal Gazette (Bundesanzeiger). The report of the Board of Directors and the general discussion at the Annual General Meeting are streamed live on the internet and freely accessible. Proxies appointed by the Company can be entrusted to exercise voting rights, even in absentia. The dates of regular financial reporting are shown in the financial calendar and on GRENKE's website. Detailed information on GRENKE's shares can be found in the "Investor Relations" section.

Compliance

At GRENKE, compliance encompasses all business activities and business processes. Particularly, acting in accordance with ethical principles, the relevant laws and supervisory and internal rules is a matter of course at GRENKE. GRENKE believes that the fair and respectful treatment of customers, employees and society form the basis of healthy business relationships. GRENKE and all of its employees are committed to a corporate code that pays special attention to dealings with customers and employees, respecting human rights and complying with legal provisions. All governing bodies and employees are properly informed of the applicable laws, internal regulations and any new features and changes via a system-based intranet, through e-mail, and in the form of training courses.

Rule compliant behaviour in day-to-day business is ensured at GRENKE through a Compliance Management System (CMS). The ongoing review and the appropriate adaptation of the risks, laws and the development of the industry increase the effectiveness of our CMS and at the same time enhance its efficiency.

Risks related to compliance and money laundering are analysed annually by the entities in each country, and the results of these analyses are used as the basis for controlling risks. Due diligence processes are conducted to minimise risk, particularly in advance of acquisitions. Local compliance officers in the respective countries check that the standards are being followed and ensure that risk is minimised both nationally and internationally. At GRENKE, ensuring compliance with national laws is a top priority. This is the reason, GRENKE regularly reviews the subsidiaries by means of a compliance and money laundering audit at the Group level.

The local compliance officers report directly to the compliance officers of the GRENKE Group. The compliance officer of the GRENKE Group reports directly to the member of the Board of Directors responsible for the Compliance area. The Supervisory Board receives a detailed Annual Compliance Report in order to review the effectiveness and appropriateness of the CMS. The compliance officer also helps the Board of Directors to prevent breaches of the law, corruption and fraudulent acts and assists in their clarification.

The subjects of money laundering and terrorism financing are vigorously opposed through a number of work instructions and guidelines. The appointment of national money laundering officers forms the basis for the Consolidated Group-wide compliance with the law. This is reflected, among others, in the fact that sanctions imposed by the legislator are adequately taken into account. To ensure this, GRENKE has opted for a system-based process. In addition, all new employees receive a comprehensive introduction to the subjects of compliance and money laundering.

GRENKE’s employees have a variety of ways and means available to report any possible rule violations. The reported information is handled delicately and fairly as a matter of course. GRENKE responds to violations of the law with the appropriate actions.

Controlling and Risk Management

All of the employees involved and the Board of Directors should be in the position to consciously control risks and seize available opportunities. At GRENKE Consolidated Group, risk management includes not only a method for ascertaining and securing risk-bearing capacity but also includes the definition of strategies as well as risk controlling and an iterative risk management process. We consider our risk management to be appropriate and effective.

The Minimum Requirements for Risk Management (MaRisk) published by the Deutsche Bundesbank and the German Federal Office for Supervision of Financial Services must be complied with. Therefore, GRENKE has implemented the risk management and controlling processes currently required for key risk types such as counterparty, market price, liquidity and operational risks across the Consolidated Group. The functionality of the risk management system and the impact of any actions initiated are monitored by the Risk Controlling and the Internal Audit departments, which report directly to the Board of Directors. Details on risk management are presented in the management report.

Declaration of Conformity of the Board of Directors and Supervisory Board on the German Corporate Governance Code (DCGK) in accordance with Section 161 AktG

The Board of Directors and the Supervisory Board of GRENKE AG issued the following Declaration of Conformity on February 1, 2017.

"The Board of Directors and the Supervisory Board of GRENKE AG hereby declare, in accordance with Section 161 of the German Stock Corporation Act, that since the issue of the last Declaration of Conformity dated February 4, 2016, the Company has complied with the recommendations of the "Government Commission on the German Corporate Governance Code", in the version dated May 5, 2015 and will continue to comply with these in the future with the following exceptions:

In determining the Board of Directors individual members' total compensation, the Supervisory Board ensures that compensation is commensurate with the performance and tasks of the individual Directors and the Company's situation. The Supervisory Board reviews the appropriateness of the Board of Direc-tor' compensation on a regular basis. Nevertheless, by derogation from ***Article 4.2.2 (2) of the DCGK****, when assessing the compensation of the Board of Directors, the assessment currently does not explicitly take into consideration the relationship of the compensation of the Board of Directors, senior management and the staff overall nor its development over time. GRENKE AG is a medium-sized company that pays its Board of Directors a moderate level of compensation, both in relation to the staff overall and the development over time. The DCKG's recommendation is aimed at large enterprises that pay their Board of Directors high compensation and is, therefore, unsuitable for GRENKE AG.*

By derogation from the recommendation in ***Article 4.2.3 (2) Sent. 6 of the DCGK****, the Board of Directors' compensation does not stipulate a cap on the overall or variable compensation. GRENKE AG's compensation of the Board of Directors is at a comparable level to other medium-sized businesses of similar size. Also, in this case, the DCKG's recommendation to provide a cap for the Board of Directors' overall compensation is aimed at large enterprises with high compensation for their Board of Directors. For GRENKE AG as a medium-sized company, this recommendation is unsuitable.*

By derogation from the recommendation in ***Article 4.2.3 (4) of the DCGK****, the Board of Directors' service contracts for the Board of Directors' members in office do not stipulate a settlement cap because the Board of Directors' service contracts are usually concluded for the length of the term of appointment only and cannot be terminated with a notice period. Therefore, a Board of Directors' service contract cannot be unilaterally terminated prematurely without good cause but only by means of a mutual resolution. The Board of Directors' service contracts contain no regulations on severance linked to events at the Company, especially a change of control.*

*The recommendation set forth in **Article 4.2.5 (3) and (4) of the DCGK** was not complied with. Specifically, the "model tables" of the "German Corporate Governance Code" for reporting the remuneration of the Board of Directors have not been used. The individualised remuneration for each member of the Board of Directors is presented in a transparent manner and pursuant to statutory provisions in the remuneration report, which forms part of the combined management report for fiscal year 2016. The Supervisory Board and the Board of Directors are of the opinion that an additional or alternate presentation of the remuneration components of the individual members of the Board of Directors is not necessary for the interests of shareholders or reasons of transparency.*

*Various aspects are to be observed in accordance with the recommendations given in **Article 5.1.2 and 5.4.1 of the DCGK**, including the determination of an age limit as well as diversity, both in terms of the composition of the Board of Directors and with regard to persons nominated for election to the Supervisory Board. The Company is of the opinion that the knowledge, skill and experience required for the respective division or area of responsibility should, in fact, be the decisive factor when selecting suitable candidates, both in terms of the composition of the Board of Directors and when nominating persons to be elected to the Supervisory Board. The above-mentioned recommendations of the DCGK are considered with regard to the composition of the Board of Directors and the nominations for elections to the Supervisory Board.*

*In accordance with **Article 5.3.3 of the DCGK**, the Supervisory Board shall form a nomination committee composed exclusively of shareholder representatives who proposes suitable candidates to the Supervisory Board for the nominations to be proposed to the Annual General Meeting. Currently, the Supervisory Board of GRENKE AG consists of a total of six members, who are to be elected exclusively by shareholders. The Board of Directors and the Supervisory Board do not consider it necessary to create an additional committee. The Company believes that the transparency of the selection procedure desired by the Commission in Article 5.3.3 of the DCGK is ensured even without a corresponding committee. For this reason, the recommendation of Article 5.3.3 has not been satisfied.*

*In accordance with **Article 5.4.1 of the DCGK**, a limit for the regular length of membership shall be specified for members of the Supervisory Board. As mentioned above, the individual knowledge, skill and experience of Supervisory Board members are crucial for the composition of the Board. The expertise necessary to properly fulfil the Supervisory Board tasks and important for GRENKE AG should be ensured in its entirety. Therefore, we refrain from setting a limit for the regular length of Supervisory Board membership.*

*The Company currently does not comply with the recommendation of **Article 5.4.6 (2) Sentence 2 of the DCGK**. In accordance with Article 10 (3) of the current version of the Articles of Association, each member of the Supervisory Board is granted variable remuneration in addition to fixed remuneration provided a certain minimum dividend is distributed to shareholders. However, the variable remuneration* *component must not exceed a maximum level of 100% of the Supervisory Board member's fixed remuneration. The applicable provision of the Articles of Association including the variable compensation component therefore does not formally conform to the Code's recommendation, which is focused on a sustainable development of the company, for example, by basing variable compensation components on the average dividend over several years. "The Board of Directors and the Supervisory Board point out that because of the Company's business model, the EBT and the dividend of GRENKE AG reflect the profitability of the entire lease portfolio across all lease transactions over the past four years and their respective contribution margins. Thus, to that end, the dividend is not affected by any short-term fluctuations in annual new business or contributions margins".*

Baden-Baden, February 1, 2017

GRENKE AG

On behalf of the Board of Directors	*On behalf of the Supervisory Board*
Wolfgang Grenke	*Prof. Dr. Ernst-Moritz Lipp"*

SHARES AND INVESTOR RELATIONS

Capital Market Communication

Open and continuous communication with all capital market participants is very important to GRENKE AG which is why we place great value on maintaining direct contact to our analysts, investors, private shareholders and representatives of the media. We regularly inform institutional investors by means of telephone conferences, individual meetings, roadshows and at selected capital market conferences. The main venue for maintaining contact with our private shareholders is our yearly Annual General Meeting. As a special service, we offer those shareholders who cannot attend the meeting personally, as well as the broader public, the option of viewing the Chairman of the Board of Directors' address and the general discussion via a live stream on our website. All current investor relations' news, press releases, and financial reports are also continually available on our website. We also offer an individualised news service.

At GRENKE, our top priority is the quality and timeliness of our information. This is the reason we have been reporting on our first and third quarter business performance in the form of a quarterly statement since 2016. This allows us to take advantage of the newly created option to use a new format for quarterly reporting, which was initially granted by the European and the national legislators and subsequently by the Deutsche Börse. Our capital market partners were overwhelmingly positive about this change because the new format is short, concise and therefore easier to understand than the previous quarterly financial reports.

In the past fiscal year we took part in various roadshows and capital market conferences both in Germany and internationally. We continued to see strong interest in our Company from both existing and new investors alike. We addressed this interest through both email and conference calls and in the form of personal meetings.

The effort we placed in our capital market communications was also recognised in the reporting year with our award of fourth place for 2016 in Germany's most prestigious Investor Relations competition "The Best Annual Report" for SDAX companies, after receiving fifth place in the prior year.

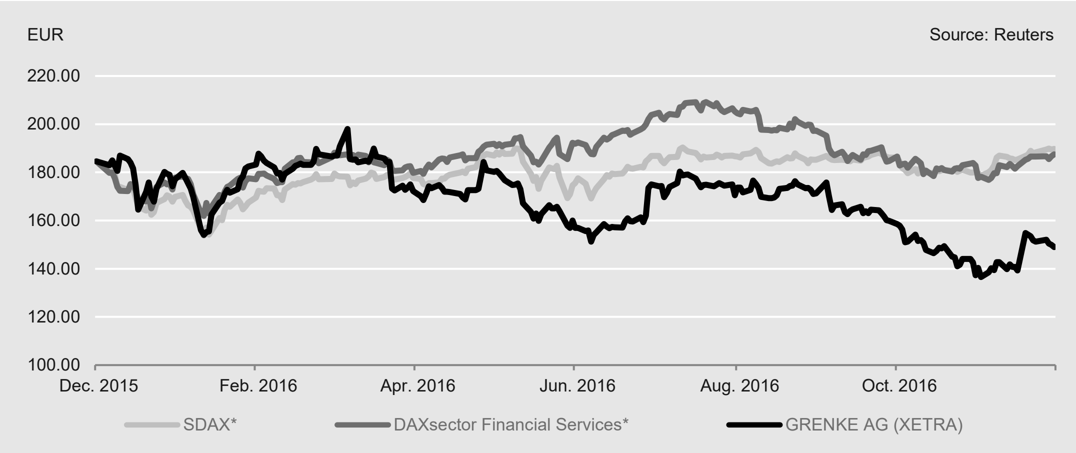
Investment Case

We promote our shares on the capital market by focusing on our business model's unique selling points, which include

- our competitive advantage and high barriers to entry for potential competitors based on our high standardisation and IT-based automation for speed at the Point of Sale (POS);
- the international roll-out of our unique selling points as a success factor for our growth strategy;
- a broad diversification of products and financial solutions for SMEs;
- market leadership in Central Europe in our core business;
- long-standing, proven risk management as a key driver of revenue and value, even in times of economic crisis; and
- a high intrinsic value for our shares measured in terms of return on equity and embedded value.

Our strategic goal remains sustainable expansion in order to generate dynamic profit growth. The focus of our international growth is on the countries and products that offer a favourable competitive environment and an attractive risk-reward profile. In doing so, it is important that we do not make it a rule to avoid risk but assess it as correctly as possible and enforce adequate margins. We use a proven and continually updated proprietary IT-based scoring model for forecasting losses to effectively control our costs and risks. This allows us flexibility in responding to changing market conditions while at the same time obtaining appropriate risk premiums. We have clearly and continuously demonstrated our strategy's success in all stages of both economic and interest rate cycles.

GRENKE's Share Price Performance



* Price indices; rebased on GRENKE AG's share price.

The major stock market indices had a very moderate start to the year 2016. After Germany's leading DAX index had finished the year 2015 at 10,743 points, it slipped to its lowest level of the year in mid-February falling to 8,753 points. The markets then stabilised amid some high fluctuation. Only "Brexit" at the end of June was able to kick-start a broad-based phase of recovery under the leadership of the U.S. benchmark indices. The second half of the year saw an initial phase of low volatility, followed by the presidential election in the United States, which sent the market into a strong rally. The DAX ended the year characterised by numerous historical events at 11,451 points for a year-on-year gain of seven percent.

GRENKE AG shares, in contrast, experienced a year of sharp volatility. The shares started the year at EUR 184.60 and initially performed in line with their benchmarks. After marking a record high of EUR 200.80 (intraday) at the beginning of April 2016, they went on to correct in the months that followed and fell to a level of roughly EUR 150 at the beginning of July. After a temporary recovery, the shares declined again until reaching their lowest level of the year at EUR 135.55 in early December. Only at the year's end did they embark on a clear upward trend ending the 2016 trading year at EUR 149. After the shares' outstanding performance in 2015, their level at the end of 2016 represented a net year-on-year decline for the shares of roughly 19 percent. GRENKE shares also underperformed their benchmarks price indices, the SDAX (+3 percent) and DAXsector Financial Services (+2 percent).

Our share liquidity continued to improve in the reporting year. The daily average shares traded on all German stock exchanges was 15,000 shares. In the two prior years, the average was around 12,000 and 7,000, respectively. The better balance in supply in demand makes GRENKE shares more attractive for institutional investors in particular.

Research and Ratings

Analyst Recommendations

In April 2016, Commerzbank reinitiated coverage of GRENKE, bringing the total of renowned investment banks covering our shares to a total of seven. This coverage includes the analysts’ regular assessment of GRENKE’s strategic and operational development, publication of price targets and investment recommendations for the share. The investment recommendations reflect, among others, the future potential of GRENKE’s shares. At the end of the 2016 fiscal year, the majority of analysts recommended buying the shares and a smaller number of analysts recommended holding the shares. An overview of analyst recommendations at the end of the 2016 fiscal year is presented in the table below. The current analyst recommendations can always be found on our website under the section titled "Investor Relations".

Institution	Analyst	Recommendation
Bankhaus Lampe	Andreas Schäfer	Buy
Berenberg Bank	Martin Comtesse	Buy
Commerzbank	Christoph Blieffert	Hold
Deutsche Bank	Benjamin Goy/Nizla Naizer	Hold
equinet Bank AG	Dr. Philipp Häßler	Buy
HSBC Trinkaus & Burkhardt AG	Johannes Thormann	Buy
Warburg Research	Andreas Wolf	Buy

Credit Ratings

We also enjoy an excellent reputation on the bond market. GRENKE is assessed regularly in a rating process carried out by the leading international rating agency Standard & Poor’s and the German rating agency Gesellschaft für Bonitätsbeurteilung ("GBB"). We recently received very good ratings from both of these agencies, with each awarding us investment grade status, thereby confirming our unchanged level of high creditworthiness.

In an analysis dated May 18, 2016, Standard & Poor’s confirmed GRENKE AG’s counterparty credit ratings. GRENKE AG received a short-term debt rating of "A-2", and "BBB+" for senior unsecured debt. The "stable" outlook was left unchanged.

Standard & Poor's detailed assessment is as follows:

:: Counterparty credit rating	BBB+/Stable/A-2
:: Senior unsecured	BBB+
:: Short-term debt	A-2

On December 15, 2016, S&P announced a revised outlook for the credit ratings of bonds issued by several German banks. The sole cause underlying this revision was a change to the law in Germany, effective January 1, 2017, under which certain bond issues ("non-structured senior unsecured") are to be classified in the future as "subordinated". S&P also places in this category any bonds issued by GRENKE AG, but not those of its subsidiary GRENKE FINANCE Plc, which are guaranteed by GRENKE AG. The outlook was reduced to "negative". S&P expressly emphasises that this action is not a result of company-specific factors. All of the bonds issued to date were issued by GRENKE FINANCE Plc and not GRENKE AG.

GBB also confirmed our high credit quality in its rating dated December 15, 2016. GBB confirmed the "A" rating with an unchanged stable outlook based on the compelling level of capital adequacy, the clear, long-time successful strategic alignment, as well as sustained solid new business and earnings development accompanied with high profitability. GBB also positively emphasised the high granularity of the reseller and customer portfolio, the efficient processes and the sophistication of the control instruments.

Dividend Policy

Continuity, return and the security of the capital base for future expansion are the central criteria of our long-term dividend policy. This is one reason why GRENKE shares are considered a good investment with attractive growth prospects in addition to their high intrinsic value and continuous stream of income. GRENKE has traditionally had a strong equity base that secures favourable refinancing opportunities. Our strategic equity ratio target is 16 percent. Our consistently good ratings are based not only on this ratio but also the high returns on equity we generate, even in times of strong growth. These factors give us access to a variety of refinancing alternatives at attractive conditions. At the end of the 2016 fiscal year, the GRENKE Consolidated Group's equity ratio was 17.4 percent following 17.0 percent in the previous year.

Actively managing our solid equity base is the key requirement for future growth. We structure our dividend policy in a profit-oriented manner in the context of this crucial, long-term strategic requirement and are confident in the continuity of our dividend distributions based on our anticipation of ongoing dynamic business growth and increasing earnings in the years to come.

Proposal for the Appropriation of the Unappropriated Surplus

Based on the ongoing solid business development in the 2016 fiscal year, the Board of Directors and the Supervisory Board will propose a dividend for the 2016 fiscal year of EUR 1.75 per share at the Annual General Meeting on May 11, 2017. This would mark the sixth consecutive year that the Company has increased its dividend per share.

GRENKE Shares at a Glance

Reference Data

Code	GLJ
Bloomberg code	GLJ_GR
Reuters code	GLJn.DE
ISIN	DE000A161N30
Market segment	Regulated Market (Prime Standard)
Index	SDAX
Designated Sponsors	ODDO SEYDLER BANK AG; HSBC Trinkaus und Burkhardt AG
Total number of registered shares outstanding	14,771,034
Class	No-par-value shares (registered shares)
Notional nominal value per share (rounded)	EUR 1.28
Shareholder structure:	
Free float according to Section 1.9 of the current "Deutsche Börse stock indices guidelines".	57.3%
Grenke Beteiligung GmbH & Co. KG *	42.7%

* General partner: Grenke Vermögensverwaltung GmbH
Limited partners: Grenke family (Wolfgang, Anneliese, Moritz, Roland, Oliver Grenke)

Share Data*

	2016	2015	2014	2013	2012
Closing price on last trading day	EUR 149.00	EUR 184.60	EUR 88.99	EUR 68.00	EUR 50.61
Highest share price	EUR 198.00	EUR 187.55	EUR 91.79	EUR 76.38	EUR 54.46
Lowest share price	EUR 135.55	EUR 90.00	EUR 66.46	EUR 50.25	EUR 37.45
Market capitalisation	EUR 2,201m	EUR 2,724m	EUR 1,313m	EUR 1,000m	EUR 693m
Earnings per share	EUR 6.87	EUR 5.43	EUR 4.41	EUR 3.23	EUR 3.10
Dividend per share**	EUR 1.75	EUR 1.50	EUR 1.10	EUR 1.00	EUR 0.80
Price-earnings ratio	21.7	34.0	20.2	21.1	16.3

* Share prices based on XETRA closing prices
** 2016: Proposal to the Annual General Meeting

COMBINED GROUP MANAGEMENT REPORT AND MANAGEMENT REPORT OF GRENKE AG

The following presents the combined management report for the GRENKE Consolidated Group (the "Consolidated Group") and GRENKE AG (the "Company") for the 2016 fiscal year (January 1 to December 31). The Consolidated Group continues to report in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union. The Company continues to report in accordance with the German Commercial Code (HGB). Any key statements concerning the general environment, our strategy or the performance of the GRENKE Consolidated Group or GRENKE AG apply to both corporate entities. Any material differences between GRENKE AG and the GRENKE Consolidated Group during the fiscal year are discussed in the section "Management Report of GRENKE AG" at the end of this combined management report.

The Company’s name was changed from GRENKELEASING AG to GRENKE AG with the registration in the commercial register on May 11, 2016. The name change was approved by a large majority of shareholders at the Annual General Meeting of May 3, 2016 and better reflects today’s broadly diversified product range – which now spans far beyond the traditional leasing business – and particularly the successful international establishment of the GRENKE brand.

The Company’s consolidated financial statements and separate financial statements for the 2016 fiscal year are published jointly in the Federal Gazette (Bundesanzeiger). The fiscal year 2016 annual financial report is also available online and can be downloaded as a PDF document at http://www.grenke.de/en/investor-relations/financial-reports.

The Consolidated Group operates internationally. For many years, the Company has employed an internationally successful franchise model for developing new regional markets and using new financing products for expansion. The Company does not own interests in the legally independent companies of its franchisees. Therefore, the combined management report distinguishes between the GRENKE Consolidated Group; namely, the Company and all of its consolidated subsidiaries and structured entities in accordance with IFRS; and the GRENKE Group, which refers to the GRENKE Consolidated Group, its legally independent franchise partners and the future subsidiary Europa Leasing GmbH.

Consolidated Group Principles

Consolidated Group Business Model

Organisational Structure

From its headquarters in Baden-Baden, GRENKE AG, as the parent company, assumes the management role for the Consolidated Group, which is represented internationally by subsidiaries located in several countries. In some cases, the subsidiaries have their own branch offices in their respective local markets. The management of the Company is performed by a Board of Directors consisting of five members, who are based at the Company’s headquarters in Baden-Baden. The Company’s Supervisory Board consists of six members.

As a financial services provider, the Company is specialised in small to medium financing volumes. A prerequisite for processing contracts profitably – even low volume contracts – is maintaining very low costs per contract. We have attained our market success by achieving maximum efficiency in the business processes and ensuring a lean organisational structure. GRENKE business model is thus geared towards the key goals of optimising both the benefit to the customer and our competitive advantage as well as maximising the Consolidated Group's efficiency. This cost efficiency, which has evolved from many years of operational experience, is based on standardisation, comprehensive IT-based automation and speed. It is also the key to what makes the GRENKE Consolidated Group unique and presents a high barrier to entry for potential competitors.

Under the franchise model, GRENKE AG contractually provides its partners expertise, an operational infrastructure, numerous services and permission to use the Company's name. At the same time, the Company retains the right to acquire the respective franchise company based on a pre-arranged time frame of typically four to six years. The purchase price is based on a formula determined when the contract is signed and takes market parameters and the company's individual performance into account. GRENKE AG refinances the rental and lease contracts between franchisees and their customers usually through its Irish subsidiary.

Segments

The three business segments – Leasing, Banking and Factoring – are aligned along the Consolidated Group's organisational structure as described in the following. The Leasing segment continues to represent the Consolidated Group's most important segment and includes all processes relevant to its role as lessor.

The Banking segment includes the activities of GRENKE BANK AG ("GRENKE Bank"), which acts as a financial partner mainly for small and medium-sized companies (SMEs). It also cooperates with a variety of federal government and state development banks to provide business start-up financing and development loans. These development loans are targeted at SMEs and self-employed professionals who want to finance new business purchases with lease financing. GRENKE BANK AG also continues to offer straightforward investment alternatives such as fixed deposit products to private and business customers via its website. The Factoring segment includes traditional factoring services in Germany and Switzerland that are focused on small amounts of contractual receivables.

The GRENKE Group operates in virtually all of Europe as well as in Brazil, Chile, Dubai, Canada, Singapore and Turkey. In terms of the Consolidated Group, Germany, France, and Italy are the key regions on a country basis where we generate new business with external customers.

Business Processes and Services

We offer lease financing at commercially reasonable terms, even for smaller IT products with low purchase prices. Consequently, we have defined and developed a market that today is still addressed only selectively by a broad majority of lease providers. For commercial customers, we finance primarily IT products such as printers, copiers, communication products and software starting at a net purchase price of EUR 500. This market sharply differs from the traditional leasing business in that ticket prices are usually significantly higher. As a result, the market is only loosely correlated with economic investment overall and is much less affected by economic fluctuations. In fact, leasing represents an even more attractive financing alternative for investments made during economic downturns, particularly for SMEs and self-employed professionals.

The mean acquisition value per lease contract based on GRENKE Group's new business was roughly EUR 8,719 in the reporting year after EUR 8,553 in the previous year. Because of the type and scope of office products used in European mid-sized companies, the structure of the financed goods portfolio was left virtually unchanged.

In addition to GRENKE Bank's various financing, investment and payment products, we are also involved in "ease guarantee" programmes sponsored by German guarantee banks in which especially young companies are given easier access to leasing for larger investments. We are continuing to rapidly expand our activities in business start-up financing. We have extended the "Microkreditfonds Deutschland" programme of the Federal Ministry of Labour and Social Affairs, which is aimed primarily at start-ups and young companies with a low credit standing. We also offer diverse time deposits at attractive conditions through our cooperation with the "WeltSparen" portal. In addition to expanding our factoring services business, we were also able to further diversify our product range in the reporting year.

Our leasing business relies mainly on what is known as "sales leasing" because of the granularity of the contracts. In this segment, we use multiple approaches to economically cover all sales channels. For example, our financing contracts with end customers are largely concluded through our specialist reseller partners. We also have our own employees based in local sales offices who are rapidly building an extensive partner network in our respective target markets. We sell our financing products through IT product manufacturers whom we support using key account management. We also approach select business customers directly and offer them attractive framework contracts with competitive conditions and flexible access to lease financing. In addition to these channels, our online activities represent another important and growing distribution channel.

This is not only true for our traditional business with small-ticket IT leasing but also other financial products. Thus, we operate the deposit business solely as an online bank and have developed an innovative internet platform for the processing of start-up financing. The purchase of receivables (factoring) is carried out using an IT-supported, automated process. In this area, as opposed to our other activities, we actively and directly acquire customers using mail and telephone campaigns. All of GRENKE Consolidated Group's operating business contracts are centrally administered and automatically processed at the Consolidated Group's headquarters in Baden-Baden. Financing risk and rates of default are calculated and measured using our continuously updated proprietary IT-based scoring model for forecasting losses, which allows us to limit the cost of credit checks and issue contracts and payment approvals within a short time.

Sales Markets

The GRENKE Group operates internationally. Sustainable and rapid geographic expansion is our specialty and includes the penetration of new international markets such as Brazil, Chile, Dubai, Canada, Singapore and Turkey, which were entered over the past few years. Because our international markets can have very different cultures, structures, requirements and legal systems, our financial products and contract arrangements are customised and have varying contribution margin requirements. Before entering a new market, we carefully examine the market's local conditions and legal requirements from our base in Germany. We then either establish a local subsidiary or enter into a contract with an entrepreneurial-minded franchisee with extensive knowledge of the local market. Our contracts are regularly updated based on information from the close working relationship between the local sales team and the GRENKE Consolidated Group's head office in Germany.

We are also reinforcing our network on a continual basis through cell divisions and acquisitions of franchise companies in existing markets to systematically bring us closer to our customers. In the reporting year, we acquired our former franchise company in Turkey and, as part of our cell division strategy, opened new locations in Belgium, Germany, Finland, Italy, Poland and Spain. We have been very successful for some time with our expansion in smaller cities, particularly in our home market of Germany, and are increasing our business potential. The GRENKE Group currently has 122 locations in 30 countries, whereby 29 of those locations are in our home market of Germany. We operate in both France and Italy – also key European countries – with 17 and 14 locations, respectively.

External Factors Influencing our Business

Macroeconomic cycles have relatively little impact on the GRENKE Consolidated Group’s business performance. Of much greater importance are industry trends, such as commercial banking policies and policies of financial service providers in the leasing, factoring and deposit businesses and the sector’s rising regulatory requirements. We have recently emphatically demonstrated that we are able to expand our business in a targeted manner, even in economically challenging times. Other external factors affecting our business include insolvency rates and the impact on refinancing costs from changes in capital market and central bank interest rates. These factors are presented in the section "Macroeconomic and Industry-Specific Environment" as well as in the risk report.

Targets and Strategy

We are one of the leading international providers of financial services for SMEs focused on lease financing for IT products with low average contract volumes. As a growth company, our clear strategic, long-term goal is to become the market leader in this segment. We are already the market leader in small-ticket IT leasing in Germany, Switzerland and Italy and one of the primary providers of financial services for SMEs on a European level. Outside of Europe, we have successfully entered several countries in the Middle East and North and South America.

We do not necessarily strive to achieve market leadership in every country we operate, but rather concentrate on those markets that offer the most attractive risk-reward profile. For example, many of our competitors reduced their small-ticket IT leasing offers or even exited the market all together after the financial and sovereign debt crises. We are taking full advantage of these market opportunities. Providers from the banking sector are also faced with increasing regulatory requirements leading to higher underlying capital needs and thereby more pressure to achieve better returns from their business activities. In order to achieve satisfactory returns, small-ticket IT leasing demands highly efficient processes and effective risk assessment for online operations. This requires upfront investments and process experience, both of which under more stringent requirements represent an even higher barrier to entry in this market.

GRENKE Consolidated Group’s business model has been proven to harbour great growth potential and generate earnings, particularly in terms of its internal financing capabilities. Therefore, the regulatory changes mentioned present us with attractive medium-term opportunities to continue to consistently expand our position as a leading provider of financial services for SMEs.

To keep the barriers to entry high and improve our proximity to customers, we have been continuously increasing the density of our network of subsidiaries and branch offices and, for some time, have also been doing this in small and mid-sized towns in Germany. We are rapidly penetrating new markets through franchisees, who have a keen understanding of their local markets. Opportunities for growth through acquisition result primarily from acquiring the companies of our franchisees several years after they have been established. This ensures our familiarity with the quality of the receivables portfolio and our ability to reliably assess these portfolios when making these acquisitions. We also took advantage of the opportunity of acquiring Europa Leasing GmbH in the fourth quarter of 2016. The acquisition provides an ideal opportunity to substantially expand our leasing business with medical devices. Because the acquisition only took effect on January 1, 2017, Europa Leasing GmbH was not yet included in the Consolidated Group’s scope of consolidation in the 2016 fiscal year.

In addition to our regional expansion, we have also been continuing to diversify our product range. One example is our participation last year in the "lease guarantee" programme and the continuation of the "Mikrokreditfonds Deutschland" programme. GRENKE Bank also expanded its diverse financing, investment and payment product portfolio. After the prior year's strategic investment in Cash Payment Solutions GmbH, an innovative online payment service, GRENKE BANK AG's diversification was boosted further in the reporting year through the strategic investment in Finanzchef24 GmbH. Finanzchef24, founded in 2012, is the first electronic insurance broker for commercial customers in Germany and operates an online finance portal for entrepreneurs and self-employed professions.

In collaboration with a growing number of federal government and state development banks, GRENKE Bank also finances business start-ups and provides development funds for new equipment purchases that are financed through leasing. Until now, over 21,000 lease contracts have been concluded as part of these collaborations.

The purchase of lower-volume receivables (factoring) in various European countries is also a permanent and steadily growing component of our extensive product range that we believe has high long-term growth potential. In factoring, we offer an additional financing alternative especially suited for our small and medium-sized leasing customers who are offered only a few alternatives from our competitors because of the low contract volumes. Our long-term goal, aside from increasing our market share, is to continue to expand in this area and achieve adequate margins.

GRENKE Group's new business growth has averaged 16 percent since the year 2000 and underscores our ability to profit equally in times of economic strength and weakness. During the reporting year, we had renewed success achieving new business growth of roughly 16 percent. Detailed information on GRENKE Group's new business is presented in the section on our business performance.

Our business model is as straightforward as it is value-oriented. Strategically, we rely on diversification to limit risk. The broadest diversification possible of our portfolios across customers, industries and countries along with the comparably low average volumes of our contracts characterise our business.

Once again, in fiscal year 2016, no single lessee accounted for more than a one percent share in GRENKE Group's new business, and GRENKE Consolidated Group's total exposure to any one customer did not exceed two percent of the Consolidated Group's equity. In both Germany and our international markets, we avoid cluster risks with our distribution partners and are generally independent of any single manufacturer for our leased assets. We structure our factoring business and banking services in a similar manner.

We also rely on the continued expansion of our already broad range of refinancing instruments so that we can take advantage of a variety of options to finance our growth at all times. These options are available to us because of our history of economic success and especially our reputation as a reliable business partner. This is why we are careful to maintain our reputation in the equity and debt markets.

Management System

The focus of our management is to increase our market share wherever we operate. To achieve this, the GRENKE Group strives for long-term new business growth – defined as the total of the acquisition costs of newly acquired lease assets, factoring volumes and start-up financing (including the micro credit business) – of a minimum of twelve percent annually.

In following this growth strategy, our aim is not to avoid risk but to assess it as correctly as possible while obtaining adequate margins. Our long-proven and continually fine-tuned IT-based model for forecasting losses plays a key role in achieving this and has greatly contributed to our track record of high growth, limited risk and attractive margins in all stages of the economic and interest rate cycles.

GRENKE Group Leasing's new business is governed by the contribution margin 2 (CM2), which is defined as the sum of the present value of the agreed cash flows of a lease contract less individual contract costs and the projected cost of risks, including projected service and disposal income. Our management of the new business at GRENKE Group Factoring is also earnings-oriented and uses factoring margins and the length of a factoring transaction measured by the number of days as key performance indicators. Longer term, however, we focus on factoring volumes because increases in these volumes usually coincide with an increase in the number of customers and also offer a starting point for additional leasing business. Financing application approvals are staggered according to their risk classification, both in terms of the absolute number of approvals and according to a risk-weighted margin. This enables us to achieve steady profitability – a factor that remains one of our top priorities. In line with regulatory requirements, we have chosen to use the deposit volume and a minimum equity ratio of eight percent as the key performance indicators for GRENKE Bank's business.

Management at the Consolidated Group level is value-based. Key performance indicators at this level are net profit and a sustainable high return on equity (ROE; net profit as a percentage of average equity) while maintaining a solid equity base. Whereas earnings growth stems mainly from the new business gained in prior fiscal years and can be somewhat volatile, the targets for the after-tax return on equity and the equity ratio have remained steady at 16 percent for many years. We believe these returns are crucial for ensuring our good rating. Despite our rapid growth in recent years, our ROE in the 2016 fiscal year was 15.0 percent after 13.7 percent in the prior year, but still below our target of 16 percent. Embedded value (based on the calculation of net asset value) is another one of our key performance indicators because expenditures incurred from our expansion into new markets, cell divisions and opening new offices in existing markets are not immediately covered by income but usually funded only after the completion of the start-up phase. Embedded value represents the present value of all remaining outstanding instalments after costs and risk provisioning. If there is a positive difference in embedded value when comparing the beginning to the end of a fiscal year, then the Company's enterprise value has increased. Even if the fiscal year's ROE did not change significantly but the embedded value increased, there would still be a positive effect on the Consolidated Group. It is the combination of ROE and embedded value that makes our management approach value-based and is a sign of our active growth-oriented value management.

We rely on a broad range of continually updated instruments to manage our refinancing activities. We not only strive to offer the best possible refinancing conditions but also make sure there are no cluster risks contained in the liabilities on our balance sheet. We always utilise all instruments available on the market so that we can form our own opinion on the current state of the market and react quickly if necessary.

Research and Development

As a financial service provider, the GRENKE Consolidated Group does not conduct any basic research and development. The Consolidated Group's core capabilities include efficient risk management and suitable leasing logistics based on centralised, standardised and highly digitised processes. To achieve efficient risk management, we continuously optimise the standard software products as well as our individually developed applications. Our activities are not only focused on modernising our infrastructure but also on our portals, apps and processing systems for sales and administration. In the reporting year, development costs amounting to EUR 4.9 million were capitalised compared to EUR 2.2 million in the previous year. The amortisation of capitalised development costs amounted to EUR 0.7 million (previous year: EUR 0.3 million).

The innovative "eSignature" service, which was introduced last year, has continued to gain acceptance. GRENKE is thereby one of the first companies to provide specialist reseller partners and customers a unique value by means of a service for the electronic administration of lease contracts. This entirely paperless process speeds up contract processing and shortens the time between signing the contract and the inflow of funds: It also significantly reduces processing costs for our contract partners.

Our GRENKE Technology Center founded last year at the "Kreativpark" in Karlsruhe – one of the most important technology locations in Europe – is located in close proximity to Germany's leading universities, technology institutes and networks and has earned the reputation as an "innovation hub". The Center conducts state-of-the-art software and business process development and was created to provide GRENKE and its partners with system solutions based on the latest standards in technology.

Report on Business Development

Overall Statement on the Business Performance and Financial Situation of the Consolidated Group

The 2016 fiscal year marked another year of profitable growth for the GRENKE Consolidated Group. Our performance is particularly evident when looking at the Consolidated Group's net profit, which grew sharply compared to the previous year causing us to raise our target corridor with the publication of our 2016 half-year report. At the same time, we took advantage of the favourable conditions in the capital markets and relied on a variety of funding options that we used as needed and to their full extent. The material transactions carried out during the reporting year are presented in the section on the Consolidated Group's net assets.

We continued our international expansion in attractive markets during the past reporting year by opening a total of nine new locations European-wide as part of our cell division strategy. We also acquired the business of our former franchisee in Turkey. In addition to our organic growth, we also made some important acquisitions: We substantially strengthened our market position in the small-ticket leasing of medical devices through our acquisition of Europa Leasing GmbH and GRENKE Bank invested in Finanzchef24 GmbH. Further information on the cell divisions and acquisitions in the reporting year can be found in the chapter on the business development of the GRENKE Consolidated Group.

At the time of preparing this combined management report, the GRENKE Consolidated Group possessed a strong earnings, financial and net assets position. Therefore, we believe that the Consolidated Group is excellently positioned to continue its international expansion, expand its new business and further increase its profits.

Macroeconomic and Industry-Specific Environment

According to the Federal Association of German Leasing Companies [Bundesverband der Deutschen Leasingunternehmen – (BDL)], 2016 marked a new record year for the leasing sector. New business increased by nine percent to EUR 64.2 billion. Growth was driven mainly by the vehicle leasing segment, but also other segments were able to gain further market share. Overall, movables leasing in 2016 grew seven percent and the leasing rate, or leasing share, of the overall economic investment in capital goods reached a new record of 24 percent. According to BDL estimates, IT investments were disappointing decreasing a total of ten percent over the period after stagnating in the previous year. BDL believes this poor development is a reflection of the level of investment in the IT sector in the overall economy. The trend in overall IT investment has little bearing on small-ticket leasing because, in our view, this market segment is not yet fully developed.

In our experience, the growth in GRENKE Group's new business is relatively unaffected by overall economic cycles. Industry trends, such as the business policies of banks and financial service providers in the leasing, factoring and deposit businesses, and the sector's rising statutory requirements have a much greater impact on our growth. There were no material changes in the industry environment during the reporting year.

General economic developments are reflected in capital goods investments and corporate insolvencies. The trend in insolvencies usually has a delayed effect on the Consolidated Group's loss rate. However, as demonstrated by the trend in our loss rate, we are able to effectively cushion ourselves from any impact on our profitability.

The business activities of GRENKE Bank make a sector comparison irrelevant because the objective of our deposit business is to provide refinancing facilities to the Consolidated Group and not necessarily to grow the Bank's business or gain additional market share. Any changes in the capital market or central bank interest rates that impact our refinancing costs are passed on to our customers in the conditions of our contracts. These types of changes do not affect current contracts because of our congruent refinancing structure. Nevertheless, the time gap needed to adjust our conditions can have a temporary positive or negative effect on the profitability of our new business. Because we have access to a broad range of refinancing instruments and are able to obtain bank deposits through GRENKE Bank, we have the flexibility to use a variety of alternatives depending on the expected market and interest rate environments.

This broad mix of products and investors gave the Consolidated Group sufficient access to refinancing funds at attractive conditions at all times during the 2016 fiscal year.

Business Development

GRENKE Group's New Business

The GRENKE Group is geared towards profitable growth, which is reflected, among others, by its advancing geographic expansion, product diversification and continued rise in new business. As a result, new business in the reporting year at the GRENKE Group reached a volume of EUR 1,974.0 million compared to EUR 1,704.1 million in the previous year. This is equivalent to an increase of 16 percent.

New business at GRENKE Group Leasing – defined as the total acquisition cost of newly purchased lease assets – climbed 17 percent in 2016 to a volume of EUR 1,592.5 million following EUR 1,359.9 million in the previous year. A key driver of this growth was the positive development of the Leasing segment's international markets. New business growth in the core market of France and the important Italian market increased by 15 percent and 29 percent, respectively. It is also worth noting the positive development in our home market of Germany, which saw a noticeable pick-up in growth in the second half of 2016 and exceeded the previous year's volume by twelve percent. At 72 percent, the international share of our new business in the reporting year remained essentially at the previous year's level.

On a regional basis, new business volume in Western Europe (without Germany) increased by 13 percent in the reporting year to EUR 499.8 million (previous year: EUR 443.2 million). We generated the highest growth in Southern Europe where new business volume rose 28 percent reaching EUR 443.6 million compared to EUR 347.7 million in the previous year. Favourable performance was recorded in Italy (+29 percent) and especially in Spain (+20 percent) and Portugal (+14 percent). In Northern / Eastern Europe we were able to increase our new business this past fiscal year by 16 percent to EUR 241.5 million (previous year: EUR 208.6 million). The decline of the British pound due to Brexit resulted in a negative translation effect of EUR 12.2 million from the conversion of leasing new business in the UK into our reporting currency, the euro. Once again, we recorded high growth in our other regions, which are still largely new countries for us. The volume acquired in these countries rose 26 percent in the reporting year to EUR 27.8 million compared to EUR 22.1 million in the previous year.

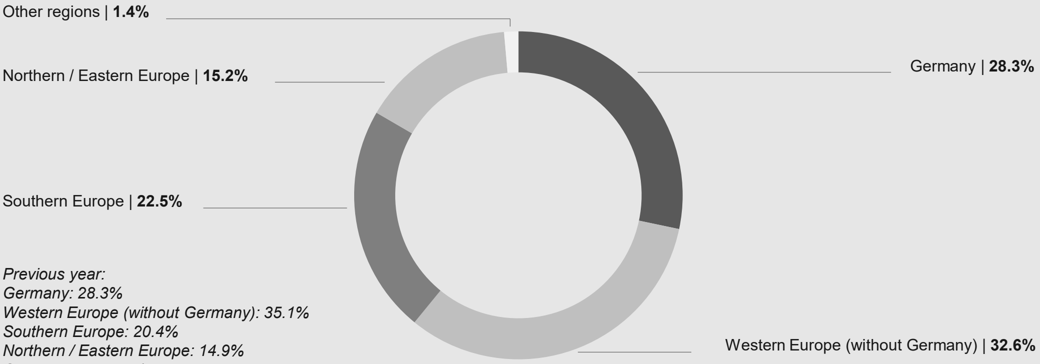
Lease applications in 2016 grew to a total of 390,736 and resulted in 182,655 new lease contracts, which is equivalent to a conversion rate (applications into contracts) of 47 percent compared to 45 percent in the previous year. A total of 318,672 of these applications came from our international markets and led to 145,413 new contracts. At 46 percent (previous year: 43 percent), the conversion rate in those markets is traditionally lower than the rate in our home market of Germany of 52 percent (previous year: 51 percent).

In the 2016 fiscal year, our new business remained highly profitable. The contribution margin 2 (CM2) on new business in the Leasing segment increased eight percent from EUR 245.5 million in the previous year to EUR 265.9 million. This is equivalent to a CM2 margin of 16.7 percent versus 18.1 percent in the previous year. The CM1 margin in the reporting year totalled 12.5 percent compared to 13.5 percent in the previous year. In absolute terms, the CM1 increased to EUR 199.1 million (previous year: EUR 184.2 million). The below-average contribution margin growth mainly resulted from the previous year's change in the calculation method and the increased focus of our sales activities on high growth. An isolated comparison on a quarterly basis shows an essentially parallel development in the margin.

The sum of purchased receivables, including collection services, in the Factoring segment increased year-on-year by ten percent. As a result, the acquired volume in the reporting year reached EUR 356.2 million (previous year: EUR 324.6 million). The acquired volume in the German market, where our main activity is the traditional factoring business, was extremely satisfactory allowing us to surpass the previous year's level by 24 percent. The development of the acquired volume in our international markets was significantly weaker rising a mere one percent due to difficult year-on-year comparisons in Switzerland. After adjusting for the aforementioned translation effect from the weakness of the British pound, the growth rate internationally was three percent. The gross margin on the new business acquired in Germany remained at a high level of 1.86 percent compared to 2.08 percent. The gross margin in our international markets was slightly lower at 1.24 percent (previous year: 1.36 percent). The gross margin is based on an average period for a factoring transaction of roughly 26 days in Germany (previous year: 25 days) and approximately 37 days (previous year: 34 days) internationally.

We are very pleased with the development of GRENKE Bank where the volume of business start-up financing, including the microcredit business, increased by 29 percent in the reporting year to EUR 25.3 million after its total of EUR 19.6 million in the previous year. Deposit volumes as per the December 31, 2016 reporting date amounted to EUR 417.1 million, or 19 percent above the value of EUR 349.3 million at the end of the previous fiscal year.

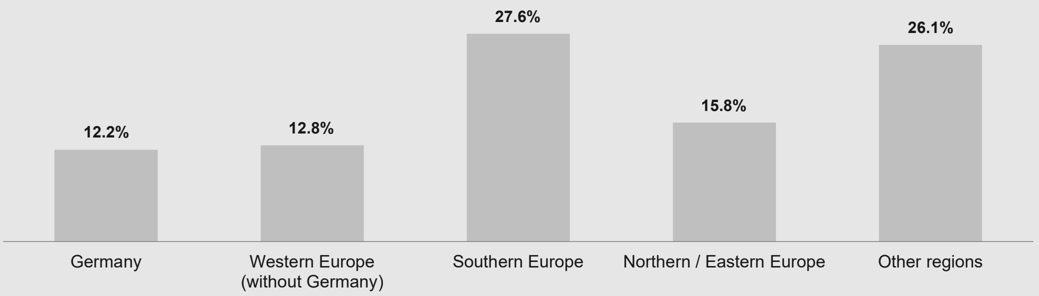
SHARES IN NEW BUSINESS OF GRENKE GROUP LEASING + FACTORING + BUSINESS START-UP FINANCING (INCLUDING MICROCREDIT BUSINESS) INCLUDING FRANCHISE PARTNERS AS PER DECEMBER 31, 2016



Previous year:
Germany: 28.3%
Western Europe (without Germany): 35.1%
Southern Europe: 20.4%
Northern / Eastern Europe: 14.9%
Other regions: 1.3%

New business 2016
GRENKE Group Leasing: EUR 1,592.5 million (previous year: EUR 1,359.9 million)
GRENKE Group Factoring: EUR 356.2 million (previous year: EUR 324.6 million)

GROWTH RATES IN NEW BUSINESS OF GRENKE GROUP LEASING AS PER DECEMBER 31, 2016 (COMPARED TO THE SAME PERIOD IN 2015)



Previous year: *Germany 18.3%; Western Europe (without Germany) 13.7%; Southern Europe 31.6%; Northern / Eastern Europe: 16.2%; Other regions: 69.5%*

Regions: Western Europe (without Germany): Austria, Belgium, France, Luxembourg, the Netherlands, Switzerland
Southern Europe: Croatia, Italy, Malta, Portugal, Slovenia, Spain
Northern / Eastern Europe: Denmark, Finland, Ireland, Norway, Sweden, UK / Czech Republic, Hungary, Poland, Romania, Slovakia
Other regions: Brazil, Canada, Chile, Dubai, Singapore, Turkey

The GRENKE Consolidated Group's Business Development

We are very pleased overall with our performance in the 2016 fiscal year. Our strong trend in earnings from the previous year persisted, and we continued to profit from the recent high-margin new business and a sustained favourable environment for refinancing. The Consolidated Group's net profit grew 28 percent to EUR 103.2 million (previous year: EUR 80.8 million). We experienced continuing intense competition in our home market of Germany in the reporting year. In response, we expanded our sales activities by, among others, opening up new locations and acquiring Europa Leasing GmbH. This strategic acquisition, which is an ideal addition to the Consolidated Group due to the similar leasing processing, substantially increases our leasing business with medical devices. What is more, we see high growth potential for Europa Leasing GmbH in Europe. Because the acquisition only became effective on January 1, 2017, Europa Leasing GmbH was not yet included in the Consolidated Group's scope of consolidation in the 2016 fiscal year.

In the second quarter of 2016, GRENKE Bank purchased a 15 percent interest in the Munich-based Finanzchef24 GmbH. Finanzchef24 is the first electronic insurance broker for commercial customers in Germany and operates an online finance portal for entrepreneurs and self-employed professionals. Finanzchef24 and GRENKE Bank share very similar target groups. This is GRENKE Bank's second strategic investment after purchasing a stake in Cash Payment Solutions GmbH in Berlin at the end of the prior fiscal year.

We also continued our geographic expansion during the reporting year. As part of our cell division strategy, we opened a total of nine new sites in Belgium, Germany, Finland, Italy, Poland and Spain. We also acquired the business of our former franchisee in Turkey in the first quarter. This expansion brought the number of GRENKE Group locations at the end of the reporting year to a total of 122 worldwide.

With respect to our product range, we intensified our cooperation with a total of three federal and state development banks: Thüringer Aufbaubank, NRW.BANK and KfW Group. The existing cooperation with these banks was expanded through global loans in the amount of EUR 7.5 million, EUR 30 million and EUR 100 million. Further information about the existing global loan agreements is provided in the Notes to the Consolidated Financial Statements under Note 5.11.4.

We have also received an extremely positive response to our innovative eSignature service offer. This service for the complete electronic processing of contracts, which we have been offering customers in various European countries since September 2015, significantly accelerates contract processing and also provides economies of scale in terms of cost per contract. Since introducing eSignature, we have already concluded over 18,000 contracts. Most of these contracts were concluded in our markets in Germany, France and Italy.

We continue to refinance our new business by relying on a broad range of refinancing instruments from four categories: senior unsecured instruments, asset-based instruments, committed development loans and our ability to obtain bank deposits from GRENKE Bank. We utilise bank deposits to refinance our business as needed. Thanks to our solid reputation in the capital markets, we placed all of our new issues successfully within a short period of time. The bonds issued in the reporting period totalled EUR 401 million and were extremely well received by the market. Based on the high level of investor demand and our intention to strengthen our equity base, we increased the volume of the existing Additional Tier 1 (AT1) hybrid bond at the end of the reporting year by EUR 20 million.

Our success when it comes to refinancing is largely a result of our good credit rating, which confirms our high creditworthiness and investment grade status. Our ratings include our Issuer Credit Rating of "BBB+" in the area of long-term maturities and "A-2" in short-term maturities awarded by the internationally leading rating agency Standard & Poor's in

May 2003 and our "A" rating granted by the Gesellschaft für Bonitätsbeurteilung mbH ("GBB") in 2014. Standard & Poor’s latest analysis dated May 18, 2016, confirmed our Counterparty Credit Rating of BBB+/A-2 with a stable outlook. GBB came to a similar conclusion in its recent rating of December 15, 2016 where it confirmed its rating on the basis of GRENKE’s strong equity base, its clear strategy that has proven successful for years and its sustainably positive new business and earnings development accompanied by high profitability. The "stable" outlook was left unchanged.

On December 15, 2016, S&P announced a change in its outlook for the bond credit ratings issued by several German banks based on a change in the law in Germany (Insolvency Regulation) effective January 1, 2017, under which certain bond issues ("non-structured senior unsecured") are to be classified in the future as "subordinated". Standard & Poor’s is also placing the bonds issued by GRENKE AG in this category but not those of its subsidiary GRENKE FINANCE Plc, which are guaranteed by GRENKE AG. The respective outlook was reduced to "negative". Standard & Poor’s expressly emphasises that this action is not a result of company-specific factors. All of the bonds issued to date were issued by GRENKE FINANCE Plc and not by GRENKE AG.

Actual Versus Forecasted Operating Development

The 2016 fiscal year marked another year in which we achieved or surpassed our key financial targets. Our original forecast for a net profit ranging between EUR 93 to 98 million was even raised with the publication of the first half-year financial report due to our strong business performance. This performance was mainly the result of a decline in expenses for settlement of claims and risk provision and an improved cost/income ratio. The new forecast range for net profit was EUR 98 to 102 million. With net profit of EUR 103.2 million in the reporting year, we clearly exceeded this target. At 17.4 percent, our equity ratio as per the reporting date also met our target and continued to be above our long-term target of a minimum 16 percent.

We were also pleased with the development of new business at GRENKE Group Leasing. The international markets played a strong role in the year-on-year rise in new business volume of 17 percent. This increase was in line with our growth expectations of between 16 and 20 percent. New business growth at GRENKE Group Factoring was weaker overall than expected while maintaining high creditworthiness. With growth of ten percent for the 2016 fiscal year, we did not reach our growth forecast of 18 to 23 percent, which we had lowered with the publication of the first half-year results (previous target: 30 to 35 percent). The nominally weaker growth was primarily due to the strong rise in new business in Switzerland in the previous year (comparison effects) and Switzerland’s generally more challenging market environment.

Financial Situation

Results of Operations

Selected Information from the Consolidated Income Statement

EURk	Jan. 1, 2016 to Dec. 31, 2016	Jan. 1, 2015 to Dec. 31, 2015
Net interest income	**217,790**	**191,204**
Settlement of claims and risk provision	55,089	59,369
Net interest income after settlement of claims and risk provision	**162,701**	**131,835**
Profit from service business*	59,279	50,801
Profit from new business	58,799	50,068
Gains (+) / losses (–) from disposals	–5,985	–644
Income from operating business	**274,794**	**232,060**
Staff costs	70,624	63,190
of which total remuneration	*58,003*	*51,902*
of which fixed remuneration	*43,577*	*38,630*
of which variable remuneration	*14,426*	*13,272*
Selling and administrative expenses (not including staff costs)	58,380	52,689
of which IT project costs	*6,207*	*4,630*
Earnings before taxes	**134,536**	**109,461**
Net profit	**103,234**	**80,845**
Earnings per share (basic/diluted, in EUR)	6.87	5.43

* Previous year: "Profit from insurance business"

Based on the strong margin new business of previous years, favourable loss development and the continuing attractive interest rate environment, the Consolidated Group continued its positive business development in the reporting year. Our operating result was 25 percent higher than in the previous year, amounting to EUR 136.5 million compared to EUR 109.3 million.

The trend of rising interest and similar income from the financing business and at the same time decreasing expenses from the interest of the refinancing continued in the reporting year. This and the rise in the volume of new business led to an increase in net interest income of 14 percent compared to the previous year. Expenses for settlement of claims and risk provision developed well and were seven percent lower as a result of our active and risk-oriented margin management. This led to a corresponding rise in net interest income after settlement of claims and risk provision of a gratifying 23 percent. The Consolidated Group’s loss rate amounted to 1.2 percent after 1.5 percent in the prior year.

We also had a pleasing increase in our profit from service business and profit from new business. The solid new business development in the reporting year resulted in an increase in each item of 17 percent. The Consolidated Group’s income from operating business increased by 18 percent and included a loss from disposals. This loss from disposals resulted mainly from a rise in the number of contracts expiring, which at the end of the lease period causes the increasing elimination of carrying amounts recognised in profit and loss. The corresponding revenue from subsequent leases, in contrast, is only gradually recognised in profit and loss in later periods in accordance with the applied accounting rules. Over the total period, the revenue still generated from subsequent leases is expected to result in a break-even result from disposals.

Just as in the previous year, the increase in the expense items in the reporting year was visibly below the growth in income. Staff costs, one of the largest expense components, increased twelve percent versus the previous year as a result of the higher number of employees and the higher variable compensation component. Sales and administrative expenses, also a large expense item within the consolidated income statement, rose eleven percent. This rise was triggered by the growth-related rise in costs for operations, sales and administration, as well as IT, project costs, which have increased considerably in the course of the system's continued expansion. Consulting and auditing costs remained at the previous year's level.

The Consolidated Group's depreciation and amortisation increased by 17 percent in the reporting year as a result of investments in fixed assets mainly to expand our IT data centre. At EUR 9.3 million versus EUR 8.0 million in the previous year, however, this amount on an absolute basis was still insignificant for the GRENKE Consolidated Group's overall earnings development. Other operating income and expenses, on the other hand, declined. The net effect of these two positions in the reporting year was neutral compared to a positive contribution of EUR 1.1 million in the previous year.

As a result of the above, earnings before taxes grew a pleasing 23 percent. With a slightly lower tax rate of 23.3 percent (previous year: 26.1 percent) due to an investment incentive programme in Italy, the net profit in the 2016 fiscal year increased by 28 percent resulting in earnings per share of EUR 6.87 compared to EUR 5.43 in the previous year.

Segment Development

Business segments

Segment reporting is based on the organisational structure of the GRENKE Consolidated Group. Operating segments are therefore divided according to the management of the business areas in the Leasing, Banking, and Factoring segments. Detailed information on the business segments can be found in the Consolidated Group's segment report, which is a part of the Notes to the Consolidated Financial Statements.

Selected Business Segment Information

	Segments					
	Leasing		Banking		Factoring	
EURk	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
New business (Leasing) / Receivables volume incl. collection services (Factoring)	**1,592,506**	1,359,882	**--**	--	**356,222**	324,632
Contribution margin 2 (CM2)	**265,942**	245,493	**--**	--	**--**	--
CM2 margin (in percent)	**16.7**	18.1	**--**	--	**--**	--
Deposit volume	**--**	--	**417,088**	349,304	**--**	--
Factoring margin (in percent)	**--**	--	**--**	--	**1.5**	1.6
Operating segment income	**258,514**	215,128	**12,294**	13,143	**3,986**	3,789
Staff costs	**66,177**	59,423	**1,826**	1,558	**2,621**	2,209
Segment result	**128,329**	99,567	**8,387**	9,462	**–189**	308

Business development

The Leasing segment continues to represent the most important earnings pillar for the GRENKE Consolidated Group. Therefore, the statements on the results of operations pertain mainly to this segment. Operating segment income in the Leasing segment increased a significant 20 percent from EUR 215.1 million in the previous year to EUR 258.5 million in the reporting year. With the disproportionately small rise in expenses mentioned above, the segment result was 29 percent higher in the reporting year reaching a level of EUR 128.3 million following EUR 99.6 million in the previous year. The Factoring segment had a moderate rise of five percent in operating segment income. The segment result was slightly negative at EUR –0.2 million compared to EUR 0.3 million in the previous year. This was primarily due to the segment's 19 percent increase in staff costs in comparison to the prior year and the challenging market environment in Switzerland. The operating segment income in our Banking segment, which is primarily the result of the Consolidated Group's internal refinancing, amounted to EUR 12.3 million amid a favourable refinancing environment and was roughly six percent below the previous year's value of EUR 13.1 million. This not only reduced GRENKE Bank's interest income but also the corresponding interest expenses of the respective leasing companies of the Consolidated Group. The segment result, which contributed EUR 8.4 million to the Consolidated Group's result compared to EUR 9.5 million in the previous year, was in line with our expectations.

In terms of the regions we are operating in, Germany increased its operating segment income by 17 percent compared to the previous year. We also recorded strong growth in our core market of France as well as in Italy – our strongest growth market over the last few years. Operating segment income in those two regions increased a respective 15 and 36 percent. Operating segment income in the remaining countries exceeded the previous year by twelve percent.

Financial Position

Selected Information from the Consolidated Statement of Cash Flows

EURk	Dec. 31, 2016	Dec. 31, 2015
Cash flow from operating activities	16,779	145,355
Net cash flow from operating activities	–16,241	119,827
Cash flow from investing activities	–14,947	–24,241
Cash flow from financing activities	1,943	13,066
Total cash flow	**–29,245**	**108,652**

The cash proceeds from refinancing and deposits from GRENKE Bank together amounted to EUR 428.8 million after EUR 391.3 million in the previous year. Cash outflows resulted mainly from a change in lease receivables of EUR 409.0 million compared to EUR 397.8 million in the previous year and an increase in other assets of EUR 90.7 million (previous year: EUR 21.9 million). The latter position contained, among others, a prepayment for the acquisition of Europa Leasing GmbH (EUR 8.5 million). The largest change occurred in deferred lease payments, which increased by EUR 56.0 million in the previous year and decreased EUR 51.1 million in the reporting year. Other items included an increase in loans to franchisees as well as a reduction (previous year: increase) in other liabilities, which together amounted to a net EUR 7.3 million compared to EUR 6.4 million in the previous year. Based on earnings before taxes of EUR 134.5 million (previous year: EUR 109.5 million) cash flow from operating activities amounted to EUR 16.8 million compared to EUR 145.4 million in the previous year. After interest and taxes paid and received, net cash flow from operating activities amounted to EUR –16.2 million (previous year: EUR 119.8 million).

Cash flow from investing activities in the reporting year was EUR –14.9 million (previous year: EUR –24.2 million) and included payments for the purchase of operating and office equipment, the payment for the interest in Finanzchef24 GmbH and the acquisition of the former franchise company in Turkey and proceeds from the sale of property, plant, and equipment and intangible assets.

Cash flow from financing activities included the assumption of bank liabilities in the amount of EUR 1.6 million (previous year: repayment of EUR 0.2 million), net proceeds from a EUR 21.6 million increase in the AT1 hybrid bond issued in the prior year, interest payments on the hybrid capital of EUR 1.7 million as well as the dividend payment of EUR 19.6 million (previous year: EUR 16.2 million) and resulted in total cash flows for the reporting year of EUR –29.2 million compared to EUR 108.7 million in the previous year.

Net Assets

Selected Information from the Consolidated Statement of Financial Position

EURk	Dec. 31, 2016	Dec. 31, 2015
Current assets	**1,608,963**	**1,427,593**
of which cash and cash equivalents	*156,896*	*186,453*
of which lease receivables	*1,141,000*	*1,004,360*
Non-current assets	**2,362,489**	**2,046,937**
of which lease receivables	*2,129,110*	*1,849,812*
Total assets	**3,971,452**	**3,474,530**
Current liabilities	**1,328,512**	**1,199,096**
of which financial liabilities	*1,227,581*	*1,061,744*
Non-current liabilities	**1,952,520**	**1,684,780**
of which financial liabilities	*1,894,474*	*1,630,600*
Equity	**690,420**	**590,654**
Equity ratio (in percent)	17.4	17.0
Total liabilities and equity	**3,971,452**	**3,474,530**
Embedded value after taxes	948,322	821,532
Return on equity (ROE) after taxes (in percent)	15.0	13.7

The solid new business and earnings development was also reflected in the balance sheet structures of the GRENKE Consolidated Group as per the December 31, 2016 reporting date. Total assets saw a significant year-on-year rise of 14 percent bringing them to EUR 4.0 billion compared to EUR 3.5 billion at the end of the preceding fiscal year. The Consolidated Group's equity also showed a solid increase growing 17 percent. This rise was the result of the reporting year's net profit, the positive response from our shareholders to the renewed Scrip Dividend offer and the increase in the hybrid bond in December 2016 of a further EUR 20 million. There was a corresponding rise in the equity ratio to 17.4 percent compared to 17.0 percent in the previous year, which meant it once again clearly exceeded our minimum 16 percent target level.

The single largest position on the balance sheet, current and non-current lease receivables, grew 15 percent compared to the prior fiscal year reporting date. This item continued to comprise 82 percent of total assets. The Consolidated Group's cash and cash equivalents declined 16 percent compared to the previous fiscal year but were still at a high level amounting to EUR 156.9 million (previous year: EUR 186.5 million). As long as we are in compliance with legal and regulatory requirements (for example, in the context of the liquidity coverage ratio), we continue to follow our strategy of using liquid assets for operating purposes only and, thereby, to finance our growth, particularly in light of the current interest rate environment. We recorded a sharp increase in other current and non-current financial assets. The 50 percent year-on-year rise was mainly a result of higher liquidity reserves from the increase in an asset-backed commercial paper (ABCP) programme and an expansion in GRENKE Bank's lending business. We also recorded a significant increase in other current and non-current assets. These items grew a combined 26 percent and included, among others, assets from the investment in Finanzchef24 GmbH and a prepayment in the course of the acquisition of Europa Leasing GmbH.

The increase in our new business was also visible on the liabilities side of the balance sheet. Liabilities from refinancing increased 15 percent year-on-year, and the liabilities of our deposit business rose by 19 percent (each reflects the sum of current and non-current liabilities). The Consolidated Group total financial liabilities increased 16 percent. This compares with a strong reduction in deferred lease payments, which had a decline of 62 percent as per the reporting date.

We continued to rely on our broad range of refinancing instruments during the past fiscal year. Six new bonds were issued in the reporting year and the amounts of two existing bonds were increased. The maturities of these bonds totalling EUR 401 million range from 15 months to ten years. Further information on our bond issues is available on our website at www.grenke.de/en. As mentioned earlier in this section, we also increased our AT1 hybrid bond issued last year by a further EUR 20 million. Details on our hybrid capital are presented in the Notes to the Consolidated Financial Statements under Note 5.17.8. We redeemed bonds in the amount of EUR 235 million as planned. In fiscal year 2016, a total of four promissory notes (PNs) were redeemed and nine were issued. The total volume of outstanding PNs as per December 2016 was EUR 329.5 million and CHF 68.4 million, exceeding the previous year's volumes by EUR 55.7 million and CHF 22 million. We utilised EUR 617.6 million of our ABCP programmes as per the reporting date (previous year: EUR 437 million). The total volume of these programmes amounted to EUR 735.0 million compared to EUR 593.3 million at the end of the previous fiscal year.

Of the available money market facilities amounting to EUR 40 million at various institutions, a total of EUR 28 million and CHF 2.7 million was utilised as per the reporting date (previous year: EUR 31.2 million and CHF 4 million). For access to short-term funds, we continue to use our commercial paper (CP) programme, which has a volume of up to EUR 500 million. As per the reporting date, we had utilised a total of EUR 201 million of this programme. We were also very successful in taking advantage of refinancing via bank deposits from GRENKE Bank and significantly increased the liabilities from the deposit business by 19 percent from EUR 349.3 million to EUR 417.1 million.

The Consolidated Group's open credit lines (bank credit lines and available bond and commercial paper volumes) amounted to EUR 688.6 million and PLN 7 million on the reporting date (previous year: EUR 324.1 million).

We expanded our cooperation with federal (KfW) and state development banks in the reporting year. Further information on existing and new collaborations is presented in the section on the GRENKE Consolidated Group's business development and the Notes to the Consolidated Financial Statements under Note 5.11.4. The total volume of the global loans, which was used to refinance the development loans, amounted to EUR 237.5 million on the reporting date compared to EUR 125 million at the end of the prior fiscal year. A total of EUR 86.3 million of this amount was utilised (previous year: EUR 66.8 million).

The GRENKE Consolidated Group uses a variety of refinancing instruments and staggers these instruments' maturities over several periods. This allows us flexibility in responding to changes in the refinancing markets. The table below shows the expected cash outflows from contractual obligations as per December 31, 2016:

		Payments due			
EURk	**Total**	**1 to 3 months**	**4 months to 1 Year**	**1 to 5 Years**	**After 5 years**
Financial liabilities	2,930,753	311,880	779,258	1,617,062	222,553
ABS/ABCP related liabilities	*688,963*	*73,049*	*202,216*	*412,825*	*873*
Bonds, debentures, private placements (denominated in EUR)	*1,894,819*	*199,109*	*466,064*	*1,014,563*	*215,083*
Bonds, debentures, private placements (not denominated in EUR)	*92,587*	*12,237*	*40,838*	*39,512*	*0*
Sales of receivables agreements (denominated in EUR)	*22,150*	*2,829*	*6,919*	*12,402*	*0*
Sales of receivables agreements (not denominated in EUR)	*107,562*	*16,628*	*36,665*	*54,269*	*0*
Payments related to bank liabilities	*124,672*	*8,028*	*26,556*	*83,491*	*6,597*
Hybrid bond	*70,625*	*4,125*	*0*	*66,500*	*0*
Leases and rentals	40,694	3,376	9,623	22,946	4,749
Irrevocable credit commitments	4,694	4,694	0	0	0
Purchase obligations *	466,184	347,913	118,271	0	0
Obligations from onerous contracts	2,976	328	897	1,751	0
Total contractual commitments	**3,515,926**	**672,316**	**908,049**	**1,708,259**	**227,302**

* Legally binding obligation to purchase goods and services and trade payables
See the Notes to the Consolidated Financial Statements

In the 2017 fiscal year, in addition to the usual purchase obligations in the context of everyday business activities, interest and redemption payments will be due for financial liabilities. Of the total EUR 1.1 billion in financial liabilities due in 2017, a total of EUR 275.3 million are liabilities from ABS and ABCP programmes. A total of EUR 718.2 million are bonds, promissory notes and private placements. The largest single position consists of two bonds that together total EUR 225 million and are scheduled to be redeemed in June and October of 2017. Details on the maturities of the individual instruments are present in the Notes to the Interim Consolidated Financial Statements.

Financial and Non-Financial Performance Indicators

The GRENKE Consolidated Group's enterprise value is not only affected by key financial figures but is greatly influenced by non-financial performance indicators. These performance indicators pertain to the relationship of the Company with its employees, customers and capital market partners and, in our opinion, form the essential building blocks for our future-oriented, competitive positioning. Financial performance indicators used at the GRENKE Consolidated Group in the 2016 fiscal year are presented in section titled "Management System".

Commitment to Corporate Responsibility

We strive to conduct our business in a responsible manner not only within our business environment but also when interacting with our employees and society. Our corporate Code of Conduct extends beyond our markets' statutory and regulatory requirements and requires us to act within an ethical framework. The purpose of the Code is to ensure that the Company's fundamental values are maintained and practised amid the diversity characterising our international organisation and across national borders.

Feedback from our employees, suppliers, lessees and other business partners as well as their suggestions, requests and complaints have been systematically recorded and analysed for many years. The "internal recipient satisfaction" survey, which is an assessment made with senior managers and departments, is used in the balanced scorecard assessment (BSC), which is a component of variable remuneration. Depending on the extent to which the targets are achieved, the BSC can contribute up to a maximum of four percentage points to variable remuneration, which amounts to a maximum of 35 percent of the fixed annual salary. Additionally, the first and second levels of management evaluate the performance of the respective managers and teams. This evaluation can contribute up to a maximum share of three percentage points to potential variable remuneration. The relevant department's staff turnover is also a factor in the executives' evaluation. As part of "external recipient satisfaction", the suggestions and criticisms from our financing recipients and specialist reseller partners are also assessed on an ongoing basis. This helps us ensure that the feedback we receive from business partners is recorded within a structured process and can be taken into consideration when expanding our range of products and services.

Contemporary Human Resource Management

The success of the GRENKE Consolidated Group is based on the skills and commitment of its employees. The human resource strategy is organised to provide the best support possible to the Consolidated Group's strategic development and international growth. We want to retain highly qualified and committed employees at all levels. Attractive working conditions and prospects for further development within a global services group play an important role in maintaining employees and providing a solid basis for mastering the multiple challenges of demographic change successfully.

Beyond the legal and regulatory requirements, we take employee matters very seriously when it comes to our understanding of corporate responsibility. The manner in which we should work together and treat one another is summarised in a handbook that describes our employees' responsibility to the Company and the responsibility of GRENKE Consolidated Group to its employees. We emphasise mutual appreciation, fairness and respect. We also advocate personal responsibility and equal opportunity and encourage the individual strengths of our employees while taking into account their need to shape their work environment and working hours as much as possible.

Diversity

To promote the equal participation of men and women in senior management positions, GRENKE has set a minimum 25 percent target in each of the second and third management levels. The Company intends to achieve this target by mid-2017. Maintaining a work-life balance personally affects us at all levels. With this in mind, we offer our employees a flexible work schedule, among other options. By providing employees with training and continuing education, we give them a chance to meet the demands placed on them and also provide them with additional opportunities for their professional and personal development.

Workforce Development

In 2016, the GRENKE Consolidated Group employed an average of 1,031 people compared to 928 in the previous year. The rise in employees is a consequence of the Consolidated Group's continued growth in the reporting year. Our German location employed a total of 428 people on average in the reporting year (previous year: 402) and our international locations employed an average of 603 people (previous year: 526).

Staff Turnover

Staff turnover at the Consolidated Group averaged 7.3 percent in the reporting year compared to 6.6 percent in the previous year. As in prior years, turnover among management and senior executives was much lower.

Training and Continuing Education

Targeted and needs-based training and continuing education open up opportunities for employees both personally and professionally. The GRENKE Academy offer employees attractive options for continuing education at all locations. Routine evaluation processes and modern e-learning programmes not only ensure that we meet our high quality standards but also facilitate the transfer of knowledge within the GRENKE Group. Our training offers have been well received. During the reporting year, 87 percent of the GRENKE Consolidated Group's employees participated in various training workshops (previous year: 83 percent).

In cooperation with the Chamber of Industry and Commerce (IHK) Karlsruhe, we offer a wide range of commercial and technical training programmes. We have two employees currently completing their training as management assistants in dialogue marketing and three employees training as management assistants for office management. We are currently training four employees in the field of systems integration and three in the field of application development. One employee is completing training for IT merchandising.

The GRENKE Consolidated Group has been a solid partner of the Baden-Württemberg Cooperative University (DHBW) since 2004. We offer young talented people career-integrated study programmes at various university locations. Currently, four students are completing the tri-national International Business Management degree programme at DHBW in Lörrach, the University of Applied Sciences and Arts Northwestern Switzerland in Basel, and the Université de Haute Alsace in Colmar (France). The programmes' practical phases also run in cooperation with our international subsidiaries in Switzerland and France. In addition to the tri-national degree programme, we have also been offering a dual-study programme in International Business in Lörrach, provided exclusively in English. We currently have three students completing this programme. We also have one student enrolled in the Business Informatics programme at DHBW Lörrach.

Four of our students are enrolled in the same programme at DHBW Karlsruhe, which we have worked with since 2007. Within the framework of this cooperation, we also offer an Applied Computer Science programme, which one of our students is currently completing. Since October 2016, DHBW Karlsruhe has been offering a newly developed study course "Business Administration in German-French Corporations" for cross-border companies. GRENKE AG was pleased to take advantage of this offer and has one student enrolled who will complete the alternating phases of practical experience in our German and French companies.

We have also been working with DHBW Mannheim since 2007 where we currently have four students enrolled in the Accounting and Controlling study programme. We expanded our cooperation with this university in 2011 and since that time have offered an International Business dual study programme. Four students are currently taking part in this programme. We have been putting together a dual study programme in Business Administration/Financial Services in cooperation with our subsidiaries GRENKE BANK AG and GRENKE FACTORING GmbH since October 2016. There is currently one student enrolled in this programme at DHBW Mannheim.

GRENKE Consolidated Group intends to increase its promotion of these training programmes in the future, also internationally. In 2016, our French subsidiary GRENKE Location SAS started a more expansive training programme and currently offers five employees practical-based postgraduate studies in the specialised areas of Sales (three trainees), Human Resources (one trainee) and Accounting (one trainee).

And finally, we maintain a close cooperation with the University of Karlsruhe and the Karlsruhe Institute of Technology (KIT). These collaborations are particularly important for the Consolidated Group in light of the GRENKE Technology Center founded in 2015 in Karlsruhe, which is a centre for state-of-the-art software and business process development.

In the 2016 fiscal year, a total of 35 (previous year: 34) young trainees at the GRENKE Consolidated Group were either enrolled in a vocational training or dual study programme.

GRENKE Centre for Entrepreneurial Studies

To encourage the dynamic Berlin start-up scene, SRH Hochschule Berlin is offering a master’s programme in entrepreneurship to teach how to take a good idea and become successful. With a new endowment professorship, the teaching and research in this field has intensified. GRENKE AG is financing this endowment professorship and two Ph.D. positions with EUR 1.0 million until 2022. The professorship should be filled by spring 2017. The aim is to analyse business start-ups scientifically in order to arrive at practicable success factors. Business start-ups can profit from this type of intelligence. The SRH Hochschule Berlin will establish a GRENKE Centre for Entrepreneurial Studies where the endowment professorship will be located. By having the research institute based at the centre, the university meets three requirements on the topic of start-ups: The GRENKE Centre for Entrepreneurial studies is dedicated to research. The English master’s programme "Entrepreneurship" transfers the knowledge into teaching and the start-up centre gives business start-ups practical assistance from the first business idea until its concrete implementation.

International Customer Base

We have spent decades building a diversified international customer base. The diversification of our product range has brought us an even larger customer base and has thereby systematically expanded our basis for generating recurring business. Several cross-selling opportunities have emerged from this growing product range, and we take advantage of these opportunities. At the end of the reporting year, current contracts at the GRENKE Group numbered 566,086 (previous year: 492,455).

Our broad and established customer base represents a key competitive advantage. Low average contract volumes also pose a significant barrier to entry for other providers. Our international focus has given us extensive experience in developing new markets and leveraging their potential. The proven high scalability of our business model, which we fully utilise, allows us to quickly and efficiently address new regional markets and thereby leverage our growth potential regardless of local market developments.

Business Excellence in all Corporate Divisions

Our quality standards are high. We strive to offer superior services to our specialist resellers and our customers. Therefore, a cornerstone of our corporate philosophy is the continuous improvement of our quality management. We have subjected our quality management system to regular periodic reviews since 1998. For more information, please refer to the section "Certification of Quality Management" on page 77 of this report. The quality management system consists primarily of a model for forecasting losses, an evaluation of our reseller relationships, documentation of our business processes and software development designed to meet our specific needs.

Our proprietary IT-based model for forecasting losses was introduced in 1994 and has been updated regularly ever since. By combining information from publicly available databases with our own routinely refined criteria, we categorise our risks and the contribution margins required to meet our return targets on a sustainable basis. In doing so, our aim is not to minimise risks but to assess them correctly. The losses calculated in advance as part of the contribution margin calculation come very close to the actual loss rates and help ensure we meet our return targets while still offering the most competitive terms possible. Further information on our quality management system and our model for forecasting losses is provided in the risk report contained in the "Report on Risks, Opportunities and Forecasts".

Reputation in the Equity and Debt Capital Markets

Our reputation in the debt capital markets is a key determinant of our access to funding and the conditions at which we can assume debt, which makes it one of the primary factors influencing the GRENKE Group’s competitive strength and growth potential. For many years, we have carefully cultivated our presence in the debt capital markets and rely on the continuous expansion of our existing and broadly diversified range of refinancing. This has given us a significant competitive advantage.

Our good credit rating is another strong reason for our success in the refinancing business. Information on our most recent ratings from credit agencies can be found in the section on business development for the GRENKE Consolidated Group on page 46.

We highly value our strong reputation on the stock market and strive to maintain this reputation strategically and independently of our respective capital market requirements. Promoting our consistent and compelling equity story is at the centre of these efforts. Our capital market presence is characterised by timely, transparent and regular reporting according to international standards, personal discussions between the Board of Directors and capital market participants and a consistent, shareholder-friendly dividend policy.

Remuneration Report

The corporate governance report contained in this annual report includes the remuneration report, which presents the principles of the remuneration system for the Board of Directors and the Supervisory Board and the member’s individual remuneration. This remuneration report forms part of this summarised management report.

Changes in the Governing Bodies

The Supervisory Board of GRENKE AG in its meeting on November 21, 2016, appointed Mr Sebastian Hirsch to the Board of Directors effective January 1, 2017. Mr Hirsch was previously the Company's general representative and in his new role will take over the areas of Controlling, M&A and Treasury. Some of these areas were previously overseen by Mr Jörg Eicker, who left the Board of Directors by mutual agreement effective December 31, 2016. Mr Wolfgang Grenke (Chairman of Board of Directors), who is responsible for the area of Corporate Strategy, will also assume responsibility from Mr Eicker for the area of Investor Relations.

Subsequent Events

There were no events of significant importance to the net assets, financial position, or results of operations after the end of the fiscal year.

Report on Risks, Opportunities and Forecasts

Opportunities Report

The GRENKE Group has been operating a dense and growing network throughout Europe in the area of small-ticket IT leasing for many years. The Company started expanding to other non-European countries several years ago with the opening of a franchise in Brazil. A contract was signed for the purchase of all shares in Europa Leasing GmbH, Kieselbronn, in December 2016 that took effect on January 1, 2017. Europa Leasing GmbH primarily offers finance leasing for medical equipment. The acquisition is intended to enhance the strategic positioning of the GRENKE Group beyond IT leasing. GRENKE also operates outside of Europe in Brazil, Chile, Dubai, Canada, Singapore and Turkey. We will continue to work towards our strategic goal of firmly establishing the GRENKE brand and our successful business model on a global scale. We changed the Company's name in the reporting year to GRENKE AG so that the name GRENKE – which stands for the best service and highest quality – could unite those customers worldwide who are looking for financial services for small and medium-sized enterprises.

Our proven franchise model, which is also used in our Factoring segment, is well-suited to markets outside of Europe. In addition to our factoring offers in Germany and Switzerland, we also offer solutions in cooperation with partners in the United Kingdom, Ireland, Hungary and Poland.

Opportunities are still emerging in the markets where we have already successfully established ourselves. Over the medium term, we plan to profit from an ever-growing market share in these markets. We will take particular advantage of opportunities in areas where there has been a withdrawal of competitors – for example, due to higher regulatory burdens – or when a reduction in competitors' offers presents us with new opportunities. In our view, the market for small-ticket leasing still has plenty of steam left to go.

We see further growth potential coming from our new online sales channels and additional leased assets such as small machinery in the area of Industry 4.0 and 3D printers as well as through expanding our activities in medical technology. Due to the expansion of our financial solutions we will be able to generate more business in the future with our established customers. Economies of scale should allow us to maintain below-average selling cost increases while generating this type of growth, at least over the medium term.

Taking advantage of these opportunities will strengthen our market position and increase our future new business. In the near term, however, this will not boost GRENKE Consolidate Group's earnings much beyond our current expectations because the nature of our business dictates that income from new contracts accumulates successively throughout the contract's term.

Risk Report

Risk Management

Risk management in the GRENKE Consolidated Group is carried out as a clearly defined and coordinated process at all relevant levels of the Consolidated Group's organisation and is closely coordinated with the activities of each separate division. Risk control is conducted across the Consolidated Group to meet supervision requirements and is responsible for risk evaluation and assessment as well as independent risk monitoring, control, and communication. An important committee responsible for risk management is the Risk Task Force (AK Risk). This committee consists of the chairperson of the Board of Directors (facultative), the Management Board members responsible for the areas of Finance, IT and Operations and representatives from all relevant divisions to ensure the comprehensive flow of information. The Board of Directors carries full responsibility for monitoring and ensuring compliance with the risk management system throughout the Consolidated Group.

We have also added the position of Chief Information Security Officer (CISO) to our risk management system. Duties falling under this position include IT security and thereby the protection of the Consolidated Group's intangible assets. This position reports directly to the Board of Director member responsible for the IT department.

Our risk management approach was established several years ago in the Company and has been consistently updated. Risks are measured accurately and assumed on reasonable terms. We not only pay attention to individual risks but also to possible risk concentrations and overall interdependencies.

Risk management's strategic and risk policy framework is defined by the Consolidated Group's risk strategy. The overall risk targets and the use of consistent standards, methods, procedure and instruments to achieve these targets are defined within this framework. Clearly specified requirements help to ensure the high quality standards, consistency and recognition of strategic risk objectives. The compliance with regulatory required capital ratios at all times has also been strategically implemented. The risk strategy is derived from the business strategy and specifies the following strategic business targets:

- diversifying risk to avoid cluster risk
- streamlining and standardising processes to reduce operational risk and complexity
- reducing market price risk to the lowest level necessary for the operating business
- using technology (an IT-based model for forecasting losses and an early warning system) to measure and manage risk
- a sufficiently strong equity ratio in order to comply with Tier I and Tier II regulatory requirements.

Ordinarily, we are not exposed to material individual risks because of the broad diversification of our business. This and the fact that our core business of small-ticket leasing deals with relatively small acquisition values, help us effectively avoid any concentration of risk. GRENKE Consolidated Group's total exposure to any single lessee does not exceed one percent of the Consolidated Group's equity. At the end of 2016, there were less than a dozen borrowers in the Leasing segment that exceeded the limit of EUR 1 million. In total, these lease contracts comprised less than one percent of the total commitments. Commitments above a certain amount are carefully monitored. We act accordingly with our business partners. GRENKE's largest reseller contributed only 0.7 percent of the total new business volume in 2016. The twenty largest dealers combined were responsible for 5.2 percent of the new business. We manage our factoring business and banking services in a similar manner.

Our leasing business model does not involve material residual value risks because our leasing portfolio primarily consists of full payout leases. Although we include residual values in the calculation for the recognition of lease receivables on a portfolio basis under IFRS accounting in accordance with IAS 17, this calculation leads to only negligible gains and losses from disposals over the entire lease period. Strong growth generated in earlier periods, however, meant that expiring contracts resulted in increasingly higher expenses due to the elimination of carrying amounts at the end of the basic lease period. The corresponding revenue from subsequent leases, in contrast. is only recognised gradually in profit and loss in later periods. The applicable IFRS standards do not allow for offsetting the relevant income and expenses in the same period so as to reflect the actual economic situation. This led to a negative result from gains/losses from disposals (loss from disposals) in the reporting year. Over the total period, the revenue still generated from subsequent leases is expected to result in a break-even result from disposals.

Risk Management Process

The risk management process is based on the risk strategy and includes a regular cycle of risk identification, assessment, control, monitoring and reporting. This process makes it possible to recognise, disclose, evaluate and document the Consolidated Group's internal and external risks and opportunities in a systematic and structured manner and also gives the employees and Board of Directors the ability to address risk responsibly and make the most of any opportunities.

Comprehensive quality management is an important component of our risk management process, and its consistent and continual improvement is part of the Company's philosophy. This includes an assessment of our reseller relationships based on the counterparty default risk, the documentation of our business processes and the creation of a software system tailor-made to our requirements for processing the contractual relationships with our lessees and franchise partners. For information on the renewed certification of our quality management in the reporting year, please see the separate section on page 77. Another integral part of our risk management system is our method of assessing credit risks associated with lease contracts as well as lending and factoring agreements.

As part of risk identification, an evaluation of the risk inventory by employees of the Consolidated Group is carried out annually and as needed. To be able to better assess individual risks, the Company has set up task forces to deal with counterparty default, market price and liquidity risk as well as strategic and operational risks. The speaker for the task forces reports directly to the Risk Task Force. The Risk Task Force meets at least once per year to discuss items such as the results of the risk survey, task force reports on risk types, the risk inventory, ad hoc risk notifications and other challenges in relation to risk management.

The Risk Control business unit uses a period-based risk-bearing capacity model that controls and monitors the overall risk profile and economic capital throughout the Consolidated Group. The model contains and assesses all risks identified as material (market price, counterparty default, operational, liquidity and strategic risks). The defined areas and types of risks are to be limited and covered by risk coverage when contemplating risk-bearing capacity. The Risk Control unit prepares a quarterly risk report which presents and explains the current risk situation. The Risk Control unit also takes an inventory of all of the relevant risks (a risk inventory) annually and as necessary.

In addition to the annual risk report, risk inventory, risk survey and ad hoc risk reporting, other instruments are also used to control risks. Risk positions, market price risks and liquidity positions are calculated regularly and presented and explained to the Board of Directors.

When risks are categorised as relevant, the director responsible for the Risk Task Force suggests counteractive measures to the Board of Directors. Relevant new risks or material changes to risks are reported on an ad hoc basis. The Board of Directors then assesses the counteractive measures and takes these measures into account in the business and risk strategy, if necessary.

The Consolidated Group also defines the independent functions of the compliance office, the anti-money laundering officer and the data protection officer. The compliance office oversees the handling of insider information and compliance with the rules of good conduct. It identifies and controls potentially risky conflicts of interest throughout the GRENKE Group. The data protection officer monitors the compliance and implementation of data protection laws.
The anti-money laundering officer monitors compliance with the duty of care under the Prevention of Money Laundering Act and takes appropriate risk-based measures to combat legal and reputation risks using a current risk analysis of the Consolidated Group, monitoring and research tools and policies in compliance with regulatory requirements. These special officers report directly to the relevant member of the Board of Directors. This structure ensures the legally required adequate and effective control mechanisms with respect to structure and process organisation for managing and monitoring the risks specified. As explained in the section titled "Risk Management", these risks are assessed and evaluated by the Risk Control department and independently monitored, managed and communicated.

Implementation of Regulatory Requirements

In accordance with Section 10a (1) KWG, the GRENKE Consolidated Group is considered a banking group with GRENKE AG as the primary institution. GRENKE BANK AG, a credit institution, is a subsidiary of GRENKE AG. Both the GRENKE Consolidated Group and GRENKE BANK AG are subject, among others, to the regulatory provisions of the Capital Requirement Regulation (CRR) and the KWG. The GRENKE Consolidated Group must comply with the Minimum Requirements for Risk Management (MaRisk) published by the German Federal Financial Supervisory Authority (BaFin). These requirements contain qualitative requirements for risk management that are to be implemented by financial institutions according to the scale, nature, extent, complexity and riskiness of their business.
The GRENKE Consolidated Group fully complies with the appropriate management and control processes required by MaRisk in its version dated December 14, 2012. The Board of Directors initiated a comprehensive implementation plan for the upcoming MaRisk amendments.

Additionally, the financial services institutions GRENKEFACTORING GmbH and Grenke Investitionen Verwaltungs KGaA are also subject to the KWG and supervision of BaFin and the Deutsche Bundesbank at the level of the individual institutions. GRENKE AG made use of the waiver rules according to Section 2a (1 and 2) KWG in combination with Section 2a (5) KWG for both of these Group companies. The subordinate institutions have notified BaFin and the Bundesbank that certain regulatory provisions are applied and incorporated at a Group level rather than being applied at the level of the individual institutions because that the necessary organisational requirements are fully met by the primary institution.

Our application to BaFin to recognise that the regulatory Consolidated Group is identical to the consolidated accounting group was approved in 2009. Thus, all Group companies of the GRENKE Consolidated Group, i.e. the parent company GRENKE AG and all of its German and international subsidiaries and structured entities, are included in the regulatory scope of consolidated companies.

Risk-Bearing Capacity

RISK-BEARING CAPACITY	Credit Risk		Potential losses that may result from the default or deterioration in the creditworthiness of borrowers or debtors
	Market Price Risk		Potential losses that may result from uncertainty about the future development (level and volatility) of market risk factors (e.g. interest rates, foreign exchange rates, and stock prices)
	Liquidity Risk		Potential losses that may arise from a lack of liquid funds or are more expensive to attain than expected to meet payment obligations when they become due
	Operational Risk		Potential losses that may result from inadequate or failed internal processes, errors performed by people or systems or from externally driven events
	Strategic Risk	Business Risk	Risk of loss arising from the Company's general business operations
		Reputation Risk	Risk of loss from the possible damage to the Company's reputation or brand (damage to image)
		Other Risks	Includes residual value risk, sales risk and inventory risk

To monitor risk-bearing capacity and ensure the Company's viability (going-concern approach), the GRENKE Consolidated Group uses an internal risk-bearing capacity model that contains all risks types identified as material. This model is based on a future-oriented rolling twelve-month view of the income statement and balance sheet. The defined areas and types of risks are to be limited and covered by risk coverage when contemplating risk-bearing capacity. The fundamental aim of measuring risk-bearing capacity is to quantify existing earnings risk to identify potential burdens on equity early on and take the appropriate measures.

The combination of risk cover (capital provided to cover risk), risk limitation and quantified risk capital requirements (risk) compose the risk-bearing capacity system and forms an integral part of the Consolidated Group's strategy, planning and control. Risk coverage is the maximum amount of financial resources available to cover risk and is primarily equity. According to the logic of the going-concern approach, some risk coverage should be reserved to meet minimum regulatory capital requirements and other deductions and is, therefore, unavailable to cover the risk.

One aspect of the risk-bearing capacity system is the appropriate consideration of stress test results for risks from extraordinary but plausible events. Risk Control unit creates classic scenarios and compiles the related actions to be taken and proposes these to the Board of Directors. The following stress test scenarios were computed in 2016 as part of the quarterly ascertainment of risk-bearing capacity:

- EU currency crises after sovereign default: This scenario assumes a partial collapse of the euro area after the sovereign default of Greece, Portugal and Spain. It assumes that a majority of the exposure to these states would need to be written-off, leading to higher risk premiums in the money and capital markets and further rating downgrades for corporations, banks and governments and that the ensuing loss of confidence that would follow would cause a massive devaluation of the euro and the exit from the euro of GRENKE’s markets of Spain and Portugal whose new currencies would depreciate significantly vis-à-vis the euro.
- Severe economic downturn: This scenario assumes a severe economic downturn and stagnation in the years that follow, caused, for example, by a state’s sudden default. It also assumes a plummet in stock prices resulting from financial market uncertainty, higher risk premiums in the money and capital markets, rating downgrades, the implosion of Germany’s exports and investments accompanied by a marked increase in unemployment and more prevalent fraud because of rage and desperation. In addition, the poor outlook and growing insecurity would lead to a drop in new business.
- Price declines in the IT sector: A global shift in the IT industry leads to a decline in demand for IT products. These price declines cause a drop in the Company’s new business and revenues.
- Loss of investment grade status: More stringent regulatory requirements cause equity requirements to increase. Prolonged pressure on the country ratings of the growth markets leads to a deterioration in the GRENKE Consolidated Group’s equity structure that could result in a downgrade in the Consolidated Group’s rating and higher refinancing costs.
- Inflation: This scenario assumes higher inflation in the euro area following drastic monetary and fiscal policy action and increased investment in fixed assets. Inflation fears would precipitate a drop in the savings rate and an accompanying rise in the consumption rate. The ECB would react by raising key interest rates to drain excess liquidity in the markets.

In addition to the stress test, a reverse stress test is also conducted annually as per the reporting date. This test assumes the business is unviable. The test is conducted in the reverse order to see at which stress scenario level the business failure occurs, in other words, at which level the aggregate risk cover is no longer sufficient to cover the risks involved.

The Consolidated Group’s calculation of risk-bearing capacity and integrated stress tests conform to the requirements set out in AT 4.1 and AT 4.3.3 MaRisk. The regulatory requirements have also been met for the integration of a forward-looking capital planning process under AT 4.1 Article 9 MaRisk.

Counterparty Default Risk

Risk Definition

Counterparty default risk is defined as the potential loss that can occur from a default or deterioration in the solvency of a borrowers or debtors. The aim is to achieve an adequate risk premium for the given amount of risk so that it can be assumed. The GRENKE Consolidated Group considers counterparty default risk as material risks. They occur in the on-balance sheet and off-balance sheet customer and proprietary businesses, whereby the on-balance sheet leasing business is dominant.

Credit Volume – GRENKE Consolidated Statement of Financial Position

In accordance with IFRS, GRENKE Consolidated Group's receivables are comprised as follows:

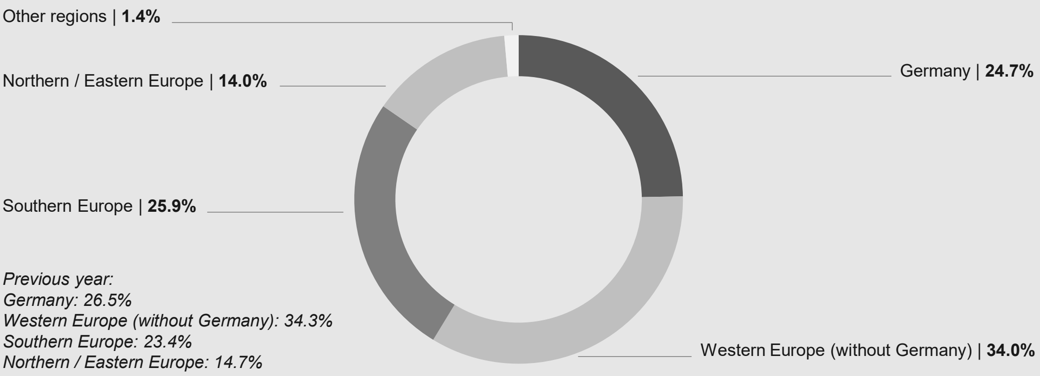
EURk	Dec. 31, 2016	Dec. 31, 2015
Current receivables		
Cash and cash equivalents	156,896	186,453
Lease receivables	1,141,000	1,004,360
Financial instruments with positive fair value	3,688	250
Other current financial assets	93,090	63,828
Trade receivables	4,474	4,272
Total current receivables	**1,399,148**	**1,259,163**
Non-current receivables		
Lease receivables	2,129,110	1,849,812
Other non-current financial assets	73,643	47,195
Financial instruments with positive fair value	29	27
Total non-current receivables	**2,202,782**	**1,897,034**
Total receivables volume	**3,601,930**	**3,156,197**

As per December 31, 2016, cash and cash equivalents include central bank balances of EUR 92,441k (previous year: EUR 67,398k). The remaining cash and cash equivalents consist of balances at domestic and international banks (with the exception of cash in hand of EUR 16k; previous year: EUR 11k). Financial instruments with positive fair values represent the derivatives of the GRENKE Consolidated Group carried at their fair value as per the reporting date.

Leasing Business

Since 1994, we have assessed the creditworthiness of our clients based on the expected value of payment defaults. Meanwhile, the quality of this system has been consistently demonstrated by the development of our losses. The systems proved to be reliable, particularly during the global financial market crisis. This applies to our domestic business and to the international markets where we operate.

GRENKE GROUP LEASING: CURRENT LEASE CONTRACTS BASED ON LEASING VOLUME CATEGORISED BY REGION



Previous year:
Germany: 26.5%
Western Europe (without Germany): 34.3%
Southern Europe: 23.4%
Northern / Eastern Europe: 14.7%
Other Regions: 1.1%

Current lease receivables as per December 31, 2016: EUR 3,222.3 million (previous year: EUR 2,787.0 million)

Regions: Western Europe (without Germany): Austria, Belgium, France, Luxembourg, the Netherlands, Switzerland
Southern Europe: Croatia*, Italy, Malta*, Portugal, Slovenia, Spain
Northern / Eastern Europe: Denmark, Finland, Ireland, Norway, Sweden, UK / the Czech Republic, Hungary, Poland, Romania, Slovakia
Other regions: Brazil*, Canada*, Chile*, Dubai*, Singapore*, Turkey

* Franchise

Our business is concentrated mainly in Germany, France, Italy and the United Kingdom. The Euler Hermes country risk rating for Germany, France and the United Kingdom is "1", while Italy is rated "2". This illustrates the particularly important role legal certainty in the individual countries plays for GRENKE Group's business model. Nevertheless, the imminent withdrawal of the United Kingdom from the European Union (Brexit) and the banking crisis in Italy increase the focus on the political developments in the eurozone. Currently, there is no reason to believe that the expected loss rates in the four largest countries would be more volatile going forward than in the past. Our diversification across several countries aims at reducing the country-specific risk.

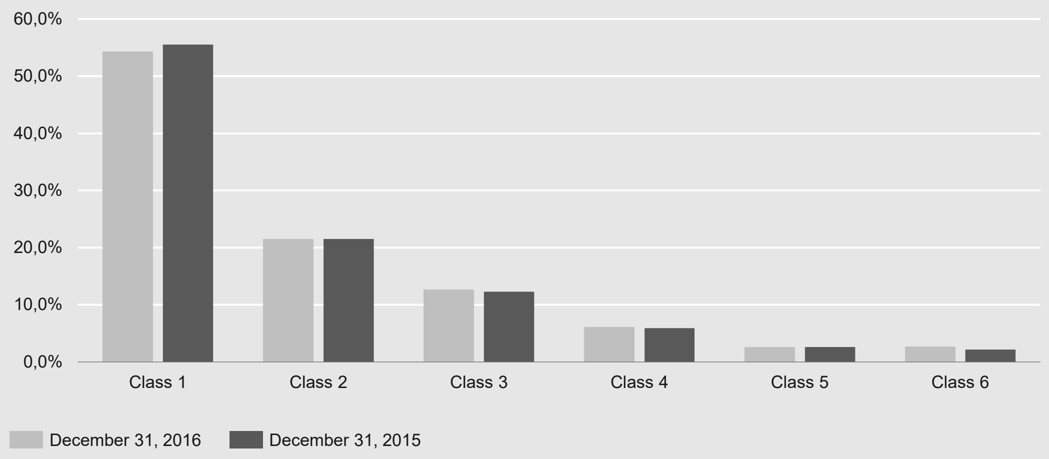
An annual review of counterparty default risk is performed on the basis of actual loss figures using automated database reports containing both publicly available data and internally generated historical data. This system is continually enhanced by in-house specialists.

The counterparty default risk of the lessees is seen as our main business risk and is evaluated and controlled with the help of statistical models. Decision-making powers when concluding new contracts in the form of power of attorney are gradually set up step-by-step from the sales staff up to the Board of Directors and are an additional instrument to limit our risks. Consequently, our statistical models lead to an expected value of future credit losses, which we take into account as an imputed cost of risk in our contribution margin calculation. The expected credit losses for the new business portfolio in 2016 – as in the previous years – was at an average of 1.4 percent p.a. in relation to the acquisition costs of the leased assets.

Ongoing target/actual comparisons, in which the initially expected credit losses are compared with an updated loss expectancy, are conducted for all portfolios. Findings from this comparison flow into our statistical models and thus form a loop system. The plan should ensure that the ongoing costs of the operations can still be generated when the actual losses are significantly higher than the expected losses.

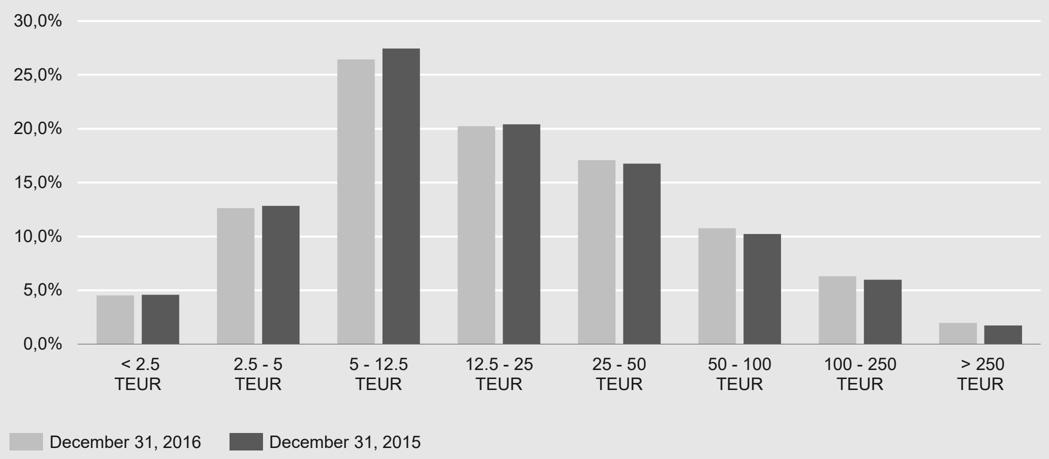
All lessees are classified in terms of their credit creditworthiness in classes ranging from 1 to 6 – similar to Germany's grading system in schools – whereby risk class "1" represents the best possible classification and risk class "6" represents the worst possible classification.

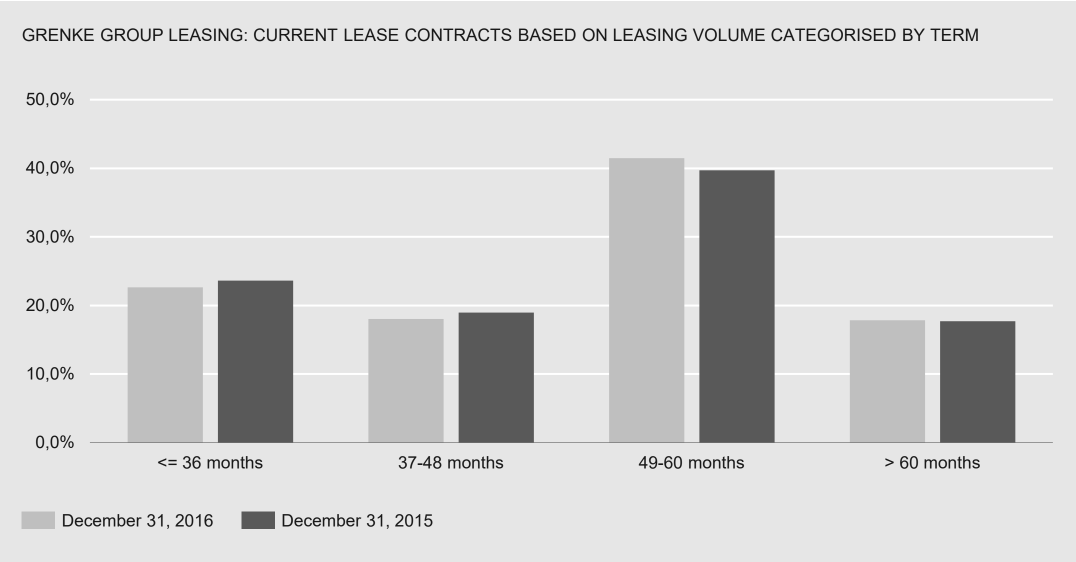
GRENKE GROUP LEASING: CURRENT LEASE CONTRACTS BASED ON LEASING VOLUME CATEGORISED BY RISK CLASS



The average risk class of the portfolio of lease contracts is 1.90 (GRENKE Consolidated Group, on the basis of all current contracts as per the December 31, 2016 reporting date) after 1.84 during the previous three years.

GRENKE GROUP LEASING: CURRENT LEASE CONTRACTS BASED ON LEASING VOLUME CATEGORISED BY SIZE





A portfolio approach for contracting lease agreements is employed throughout the Consolidated Group. Differentiation is made according to the following criteria:

- Lessees: Highly diversified portfolio of lessees consisting of business and corporate clients
- Resellers/manufacturers: No individual dependencies
- Leased assets: No significant outstanding residual values (full cost recovery); maintenance and warranty risks are typically borne by suppliers/manufacturers
- Lease agreements: A large number of current contracts with an average contract term of roughly four years and a focus on small tickets below EUR 25k each (63 percent of all leases)
- Sales channels: Represented in virtually all sales channels
- Geographic presence: The GRENKE Consolidated Group is represented in all major European economies with locations in 24 countries (in the GRENKE Group: 30)

Nearly all leases concluded provide for full cost recovery. This means that payments made by the lessee during the basic lease period, including the guaranteed residual values, exceed the acquisition and contract costs.

Risks that could arise due to different legal systems in the respective countries are discussed with local legal and tax experts prior to market entry and taken into account in the lease agreements. The business model is adjusted as necessary.

Adequate allowances are recognised for receivables from terminated lease contracts and those in arrears. The amount of the necessary allowances is generally determined on the basis of percentages and processing categories of the lease contracts. Percentages are calculated using statistical methods. As per the reporting date, the amount of allowances totalled EUR 129.7 million (previous year: EUR 126.3 million). Expenses for risk provision for the leasing business decreased year-on-year by EUR 4.8 million to EUR 53.1 million.

Lending Business

GRENKE BANK AG's main financial risk is counterparty default risk. Loans to customers consist of purchased lease receivables, start-up financing, microcredit financing, project financing, overdraft facilities and the gradual decline in the legacy portfolio of personal loans.

Purchased lease receivables account by far for the greatest portion of GRENKE BANK AG's loan portfolio. They represent a broadly diversified portfolio with small-scale receivables to small and medium-sized companies from the European Economic Area that the Bank has acquired exclusively from companies of the Consolidated Group. Thus, counterparty risk for this type of business is correspondingly low. Credit risk is taken into account by appropriately regulating the margin based on the Consolidated Group's long-standing, proven method for forecasting losses. In some cases, additional security is also provided by guarantee agreements. Purchased lease receivables are measured based on the decision value method for determining the expected loss to GRENKE AG.

Since 2015, GRENKE Bank, in cooperation with Mikrokreditfonds Deutschland and selected microcredit institutions, provides micro-loans up to EUR 20k to business start-ups and established companies. The administration and refinancing are carried out under a contract of the Federal Republic of Germany. The counterparty default risk is assumed entirely by Mikrokreditfonds Deutschland.

GRENKE BANK AG's orientation as a provider of financing to small and medium-sized companies led to its collaboration with development banks in as early as 2010. The specific aim of these collaborations was to provide smaller business start-ups with funds for their business plans. GRENKE BANK AG's associated credit risk is reduced by an 80 percent indemnification provided by the development bank or guarantee bank. In addition, financing for business start-up plans is generally limited to a maximum credit exposure of EUR 100k per borrower unit so that credit risks in this area can be broadly diversified. In the field of small-scale business start-up financing, we introduced our own version of this product (GRENKE starter loan) in 2014, which is based on the conditions of the development loans but does not include indemnification by development banks.

The legacy portfolio, which mainly includes small-scale equity financing for private individuals, is being liquidated according to plan. As a result of ongoing repayments and loan clearance, this part of the loan portfolio is now under EUR 0.2 million (previous year: EUR 0.5 million).

In the context of risk provisions for GRENKE Bank's loan business, allowances are recognised according to the level of creditworthiness or the processing class. In addition, a measurement of the securities to be pledged at their probable realisation value is carried out in individual cases.

The expenses for risk provision for the traditional lending business of GRENKE BANK AG amounted to EUR 1.8 million as per the reporting date (previous year: EUR 1.3 million).

Factoring Business

The factoring business is also focused on the small-ticket segment. Our factoring entities located in Germany and Switzerland mainly offer what is known as "notification factoring". The advantage for the Company and its factoring customers is that the invoice recipient (debtor) is notified of the assignment of existing receivables. This provides an opportunity to address the recipient directly with the customer's consent in the event of default, relieves the factoring customer and provides transparent monitoring of the outstanding receivables. Under certain conditions, we also offer non-notification factoring contracts. As opposed to notification factoring, the debtor is not notified of the outstanding receivables being assigned to the factoring company. We also started to offer collection services in 2015.

Adequate allowances are recognised for factoring receivables in arrears based on percentages and the processing categories of customer receivables. Percentages are calculated using statistical methods and based on past experience. As per the reporting date, the amount of allowances in the factoring business totalled EUR 0.8 million (previous year: EUR 0.7 million). Expenses for risk provision for the factoring business amounted to EUR 0.2 million (previous year: EUR 0.2 million).

The main selection criteria in the factoring business include the potential factoring client’s creditworthiness, average annual revenues, industry affiliation and the accounts receivables reference list. Ongoing monitoring of factoring customers allows for risk-adjusted pricing. When making the loan decision, a credit check of the factoring client’s accounts receivable is conducted on the basis of data from external credit reporting agencies, which is evaluated by GRENKE AG’s credit support centre. Most of the contracts are made with domestic debtors. An ongoing review and evaluation of the debtors and customers is made within the contract period on the basis of payment history.

Investments

In the fourth quarter of 2015, an interest of 25.01 percent was acquired in Cash Payment Solution GmbH in Berlin through the GRENKE BANK AG subsidiary. Therefore, investment risks are also included under counterparty default risk when quantifying risk-bearing capacity.

The Consolidated Group’s diversification was expanded through GRENKE BANK AG’s strategic investment in Finanzchef24 GmbH in the reporting year.

Financing of Franchise Companies

The GRENKE Group’s franchise companies operate as lessors in their respective leasing markets and usually in the small-ticket segment. The Group also offers factoring as part of its franchise model in the United Kingdom, Ireland, Poland and Hungary. Leases contracted by the franchise companies are predominantly refinanced by the Consolidated Group. Occasionally, franchisees conclude leases under a commission model so that the Consolidated Group can act as the direct lessor. In the reporting year, this occurred only in the case of our franchisees in Malta. This arrangement is based on the refinancing framework agreement concluded between the respective franchisee and the Consolidated Group. When refinancing is provided, it is in the form of either loans or forfeiting. Future respective lease instalments are generally discounted at the refinancing rate. In addition, GRENKE AG acts as guarantor for individual franchise companies.

Market Price Risks

Risk Definition

Market price risk is defined as potential losses that may result from uncertainty about the future development (amount and volatility) of market prices. These market prices mainly concern interest and currency rates. Market price risks at the GRENKE Consolidated Group are considered material. The aim is to only assume market risk in conjunction with the operating business and to reduce it to an appropriate minimum.

Financial market price fluctuations can have a significant effect on the Consolidated Group’s cash flow and net profit. Of particular importance are changes in interest rate markets and certain currencies. We use active risk management as part of our ongoing risk management and monitoring of interest rate and currency positions.

In addition to risk-prone, market-sensitive position such as floating-rate notes or receivables in currencies other than the euro, we also consider the sensitivity and elasticity of the respective market prices to be important factors when dealing with interest and currency risks. Our aim is to limit our net profit's sensitivity to market price volatility. This means striving to ensure the highest possible independence of net profit to interest rate and currency market developments while maintaining a proper balance between the costs and benefits of hedge relationships. The parameters used for conducting risk analysis by means of a sensitivity analysis are

- a concurrent parallel increase or decrease of ten percent in the value of the euro compared with all major foreign currencies; and
- a parallel shift of 100 basis points (one percentage point) in the term structure of interest rates.

The potential economic effects identified in the analyses are estimates based on artificial changes in market prices and that all other conditions will remain unchanged. This is the reason that the shift in the term structure of interest rates is viewed independently of any related effects on other interest rate-induced market developments. The actual impact on the consolidated income statement can differ significantly from this as a result of the actual developments.

The predominate market price risks and the outstanding interest rate and currency risk positions are discussed at least once monthly with the responsible member of the Board of Directors in the Market Price Risk Task Force and on the basis of ongoing analyses. The Consolidated Group is not exposed to the risk of changes in equity or raw material prices because it does not hold positions in any listed equities, raw materials or related derivatives.

Derivatives for Hedging Purposes

The Consolidated Group uses exclusively derivative financial instruments and only when ordinary business activities involve risks that can be minimised or eliminated through the appropriate derivatives. The sole instruments used are interest rate swaps and forward exchange contracts. Each derivative contract relates to an underlying economic transaction with a corresponding opposing risk position. Our contract partners are only those banks with impeccable credit ratings. Counterparty default risk plays a limited role because of this factor and the diversification of our contract partners.

Interest Rate Risk

The Consolidated Group's interest rate risk mainly results from the sensitivity of future interest expenses on financial liabilities to changes in market interest rates. Financial liabilities primarily consist of floating-rate debentures and ABCP programmes. Further details on these risks and the management of interest rate and currency risks can be found in the Notes to the Consolidated Financial Statements in section 7.3 "Derivative Financial Instruments".

Sensitivity to economic success is crucial in identifying open risk positions that can be feasibly and economically hedged using derivative instruments. This demonstrates our overall aim to generate net interest income that has a low sensitivity to interest rates.

The potential impact on equity and net profit (each before income taxes) from a change in interest rates of 100 basis points (bps) in the reporting year is shown in the table below. The drop in the interest level is limited to "zero" for the impact on net profit, and it is assumed that all other influencing factors, particularly exchange rates, remain unchanged.

	Net profit before income taxes		Equity before income taxes	
EURk	+100 bps	–100 bps (up to 0.0% interest rate level)	+100 bps	–100 bps
December 31, 2016				
Variable-rate instruments	–692	35	--	--
Fair value measurement of interest rate swaps	--	--	2,385	–2,205
December 31, 2015				
Variable-rate instruments	–1,278	26	--	--
Fair value measurement of interest rate swaps	--	--	1,039	–1,045

Issuing bonds and contracting interest rate swaps are elements of a financing strategy that separate liquidity generation from interest rate hedging and increase our ability to optimise our refinancing. The risks that could possibly result (variable interest-related cash flows) are hedged using the appropriate interest rate derivatives. Because designated hedging transactions have proven to be almost 100 percent effective, any changes in the fair value of interest rate derivatives as hedging transactions were recognised directly in equity based on their clean value (excluding accrued interest).

Under the ABCP programmes with Helaba (Opusalpha Purchaser II), DZ-Bank (CORAL), Hypovereinsbank/UniCredit Bank AG (Elektra) and HSBC France (Regency) the respective structured entity or the GRENKE Consolidated Group is responsible for interest rate hedging and, therefore, interest rate risk management. The ABCP transaction serves as the underlying floating-rate transaction, whereas cash flows are generally hedged using interest rate swaps. Under the ABCP programmes with SEB AG (Kebnekaise Funding Limited), interest rate swaps are used to limit the risk of changes in interest rates. GRENKE AG is not the counterpart in these swaps.

The parameters of the underlying transaction that result from financing (liability) are always the primary consideration when contracting interest rate swaps. Therefore, interest rate terms of the swaps on the variable side are largely identical to those of the underlying transaction. Furthermore, the swap volume contracted is never greater than the volume of the hedged financing. Existing and planned refinancing transactions are actively incorporated into risk management and the related hedge relationships are subject to ongoing analysis in the form of quarterly effectiveness tests using a method permitted under IFRS.

Using an interest rate tool, the Market Price Risk Task Force assesses open interest rate positions each month according to the internal definition and initiates action required. Refinancing is then completed by the team using the hedging transactions decided by the Board of Directors. Interest rate risk is calculated quarterly in the context of risk-bearing capacity based on a Value at Risk (VaR) approach. This is done by comparing the open floating- and fixed-rate assets with the corresponding liabilities. The assumed elasticity of the floating-rate positions is 1, because almost all reference interest rates reflect 1- to 3- or 6-month Euribor and are sufficiently mapped. The respective current yield curves, exchange rates and all derivative positions are included in the calculations as well as the balance sheet items and their amortisation schedule.

The extent of interest rate risk is calculated on the basis of changes in interest cash flows for basis point changes at a confidence level of 99.0 percent and a holding period of 240 days. With a risk horizon of one year, the estimated maximum loss at a confidence level of 99.0 percent (equivalent to a shift of 122 bps) is EUR 458k.

Currency Risk

The Consolidated Group is exposed to currency risks as a result of its broad international activities. Derivatives are used to mitigate or eliminate these risks. These derivatives are accounted for as financial assets or financial liabilities at their fair value as per the reporting date. In our large regional markets such as Great Britain, we refinance the new business we acquire in local currencies and thereby exclude currency risk almost entirely. As a result, the Brexit referendum in the 2016 reporting year had no significant impact on our refinancing. Fixed cash flows in foreign currencies are considered in the risk calculation for open currency positions. The VaR is calculated at various confidence levels for each currency position. Historical changes in the respective currency rates within 20 days inside a ten-year period serve as the basis for these calculations. Several extreme scenarios are also simulated. At a confidence level of 99.0 percent and a one-year risk horizon, the VaR calculation derives an estimated currency risk for the various currencies of EUR 1,653k.

Currency risk currently exists in the context of financing provided to Consolidated Group companies or franchisees operating outside of the eurozone. Hedging of outstanding foreign currency cash flows is carried out on the basis of defined hedging limits, which take effect as of a holding of EUR 500k per converted currency based on the day’s spot rate. This amount was exceeded for the first time in Romania, Denmark, Canada, United Arab Emirates, the United Kingdom, Sweden, the Czech Republic, Turkey and Hungary. Nevertheless, the exchange rate is largely known and contractually set for financing provided in the Canadian dollar, United Arab Emirates dirham, British pound sterling, Hungarian forint, Romanian leu, Singapore dollar, Turkish lira, Danish krone, Swedish krona and Czech koruna for lease receivables held at the respective subsidiaries and franchise companies. However, there are still risks with respect to open tranches.

Currency risks impact the lease refinancing operations in Switzerland, Brazil, Chile, Poland and Croatia only to a limited extent because the lease refinancing agreements in those countries are based on the local currencies. In addition, cash flows are also hedged in the context of economic hedging.

In general, risks arise from currency fluctuations relate to financial assets and receivables, onerous contracts denominated in foreign currency and from the translation of the Consolidated Group companies’ financial statements. The use of derivatives (only forward exchange contracts are used for currency risk) lessens the market sensitivity of the underlying transaction, i.e. cash flows from financial assets and receivables. Ideally, the instruments are offset almost entirely. Hedge accounting will not be used for currency positions for the foreseeable future.

Foreign Currency Sensitivity Analysis

Management has concluded that the Consolidated Group is mainly exposed to foreign exchange risk with respect to the British pound (GBP), Hungarian forint (HUF), Swiss franc (CHF) and the Danish krone (DKK).

The impact on net profit before income taxes results from the changes in the fair value of monetary assets and liabilities, including those that are foreign currency derivatives not designated as hedging transactions or from actual cash flows that were recognised in whole or in part in profit or loss in the reporting period and converted during consolidation into euros under the condition that all other influencing factors remain unchanged, particularly interest rates. A direct impact on equity does not occur because foreign currency derivatives are not recognised as hedging transactions.
The influence of projected sales and purchase transactions is not considered.

The following table shows the Consolidated Group’s sensitivity to a 10 percent appreciation or depreciation in the euro against the respective other currencies as per December 31 and during the reporting period, as well as their impact on the net profit before income taxes.

	2016		2015	
EURk	**Appreciation**	**Depreciation**	**Appreciation**	**Depreciation**
GBP	–1,054	1,060	–1,043	1,051
HUF	–445	447	–612	613
CHF	–362	362	–322	322
DKK	–287	317	–288	287

Liquidity Risk

For information about liquidity risk, please refer to the overview of the expected cash outflows from contractual obligations in the section titled "Net Assets".

Risk Definition

Liquidity risk is defined as the potential loss that may result from a lack of liquidity or liquidity that can only be generated at higher-than-anticipated costs in order to meet payment obligations when due. The Group’s liquidity risk is considered significant but well controlled by the adequate management measures of the existing systems and methods.

Liquidity Management

The Company’s solvency is secured at all times by adequate liquidity facilities. The Company’s ability to meet its financial obligations is ensured through its cash holdings, committed credit lines and long-proven money market and capital market programmes. Emissions under existing money and capital market programmes are carried out exclusively on liquid markets and in liquid currencies. Financing conditions continued to be favourable during the reporting year. Our liquidity management is based on the three pillars: money and capital market programmes, sales of receivables and financing via GRENKE Bank. Thanks to this diversified refinancing structure, we were able to raise sufficient liquidity for the Consolidated Group and our global business at all times.

A downgrade in the Company’s rating by Standard and Poor’s or GBB could affect our external refinancing. Market liquidity risk plays only a minor role because we do not hold any tradeable assets.

Short-term Liquidity

Liquidity risk management consists of the day-to-day management of incoming and outgoing payments. A liquidity overview is prepared for short-term reporting on the first working day of the calendar week and is discussed by the Board of Directors. The overview includes all of the relevant information on the short-term cash developments expected in the following weeks. The weekly liquidity overview gives the Consolidated Group’s current liquidity status and focuses on cash flows from the leasing business. Wages and taxes are also taken into account.

Reporting differentiates between three liquidity levels:

- Liquidity 1 (cash liquidity): cash in all accounts plus overdrafts at banks and all "immediate" (time horizon of approximately one week) cash flows;
- Liquidity 2: Liquidity 1 plus cash flows due or to be received within one month. This also includes assets that are currently committed but can be monetised within this time horizon without significant losses in value; and
- Liquidity 3: Liquidity 2 plus cash flows not due or to be received within one month. This also includes assets that are currently committed and require a period of more than one month to be monetised without significant losses in value.

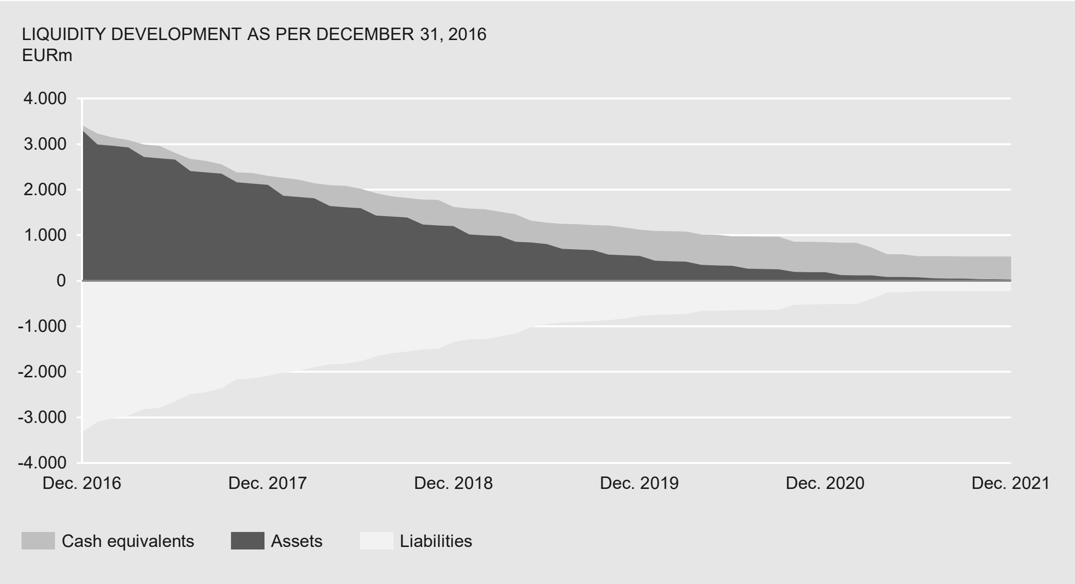
EURk	December 31, 2016	December 31, 2015
Liquidity 1 (cash liquidity)	240,783	164,242
Liquidity 2 (up to 4 weeks)	360,711	293,108
Liquidity 3 (more than 4 weeks)	535,210	490,145

Management of short-term liquidity is conducted to meet the required liquidity coverage ratio (LCR), which has been mandatory since October 1, 2015. The LCR was 101.07 percent as per the December 31, 2016 reporting date. The minimum ratio of 70 percent in the year 2016 has been maintained at all times since the introduction of the mandatory minimum ratio. The minimum ratio will rise to 80 percent in 2017 and 100 percent in the year 2018.

The main sources of refinancing to ensure the Company’s short-term ability to meet its financial obligations are cash holdings, EUR and CHF money market lines, EUR and CHF revolving credit facilities and overdraft facilities. Some of these short-term refinancing facilities are firm commitments and subject to only minimal market fluctuation versus the EONIA and EURIBOR/LIBOR reference interest rates. In addition, the existing refinancing agreements do not include regular, early termination rights. The maturities of money market and overdraft facilities are unlimited, whereas the maturity of revolving credit facilities is 364 days. To bridge short-term liquidity constraints, we have contractually committed revolving credit facilities available for EUR 150.0 million, CHF 10 million and PLN 50 million with a variety of banks.

Medium-Term and Long-Term Liquidity

Monthly static liquidity planning is carried out in addition to short-term liquidity management and the weekly reporting. Dynamic liquidity planning is performed at least once a quarter and is used in cash planning to map out the liquidity status for upcoming periods. The condensed presentation is prepared on a quarterly basis. Because the duration of the portfolio’s assets roughly corresponds to this period, this constitutes a significant parameter for liquidity management at the Consolidated Group.



Bonds and promissory notes in the amount of EUR 364.2 million and CHF 37.0 million will be redeemed in the 2017 fiscal year. The refinancing of these debentures may be subject to refinancing risk on their redemption date. However, we expect that the diversity of our refinancing instruments, sufficient control measures and our favourable experience on the capital markets to keep these risks limited in 2017. The duration of the assets and liabilities is calculated on a monthly basis to provide a relevant benchmark for managing the maturities of new refinancing and the liquidity structure. As per December 31, 2016, the duration of assets was 20 months (previous year: 20 months), and the duration of liabilities stood at 25 months (previous year: 22 months). Based on this data, the maturity transformation risk can be minimised using suitable measures.

We are not dependent on any single bank for our refinancing and have direct access to a variety of refinancing alternatives on the capital markets. These options ensure that the structure of our liabilities is broadly diversified and allows us to work together with several banking partners.

We have a very wide range of refinancing instruments available to us that includes traditional bank financing, revolving loan facilities and ABCP programmes. GRENKE has firm commitments for financing options at fixed conditions and terms for a defined time period so that there is no risk as to their availability.

ABCP programmes are funding arrangements based on defined underlying assets, i.e. lease receivables and are currently being used to refinance our business in Germany, France and Austria. We also have access to conventional bank financing, which has a similar asset-based structure, for Brazil, Chile, Germany, the United Kingdom, Poland and Switzerland.

We also, however, use refinancing instruments that are not asset-based that we can use at our discretion depending upon our business development. One example of this is our direct access to the capital markets through our debt issuance programme (DIP). We have also had a platform for issuing commercial paper (CP) since 2011, which can be used for a maximum volume of up to EUR 500 million and durations ranging from one to 364 days. This CP platform provides us with refinancing alternatives with durations starting under one year, while DIP bonds offer durations in excess of one year. We also use the financing opportunities available to us via GRENKE BANK AG's deposit business. GRENKE BANK AG offers investment products to both private and commercial customers.

This broadly diversified range of instruments allows us to use the most attractive financing channels available from a variety of alternatives depending on the capital market sentiment at the given time. Because the sovereign debt crisis is still not entirely resolved, financial markets and especially bonds with medium to long-term durations are still subject to high risk. This is particularly true for German long-term interest rates, which are at a record low level. There is also currently increased interest rate risk from the U.S. Federal Reserve's announcement that it will continue to rise short-term interest rates in the U.S. in the course of 2017. Despite only a small improvement in the economic environment, an impact on interest rates in Europe cannot be ruled out. Nevertheless, national banks worldwide continue to flood the markets with liquidity. Based on signals from the European Central Bank for continued low interest rates, at least Europe is expected to maintain its current monetary policy for the foreseeable future.

The very low returns on government securities and the deteriorating creditworthiness of several sovereign debtors have caused investors to look for alternatives. As a result, refinancing is readily available for companies such as GRENKE who have a high credit standing and solid reputation on the capital market. We took full advantage of this market situation in the reporting year to meet all of our current refinancing requirements promptly and at attractive conditions and to cover a portion of the capital requirements necessary for our future growth.

Operational Risk

Risk Definition

Operational risk is defined as potential losses that can result from inadequate or failed internal processes, structures, human or technical errors or externally driven events (e.g. fundamental hazards, forces of nature and deliberate actions). Reputation risk, according to the internal definition given, is not included in this category. Operational risk at GRENKE Consolidated Group is considered significant. The risks are quantified using the basic indicator approach according to CRR in the context of risk-bearing capacity and monitored and controlled by means of a single recognition in the risk survey.

Risk Survey

Operational risk surveys are conducted at least once annually using the Consolidated Group's intranet-based risk management tool. These surveys ask employees from all divisions about their area's risks. The results of the risk survey are used to assess the materiality of the Company's risk in the context of the risk strategy process. The results of the risk areas of legal, tax, IT, internationalisation and franchise, administration, personnel, sales and marketing, and disposals are evaluated based on the average estimated loss and the stated probability of occurrence. Based on this evaluation, the risks are assigned to one of three risk categories. The most relevant risks are analysed by the Risk Task Force. In the 2016 fiscal year, the highest rated individual risks were related to the legacy portfolio, external communication with the capital market and business expansion. Measures to manage risk are defined for individual risks. There were no operational losses during the reporting period that exceeded the EUR 2 million threshold. Most of the loss was classified in the category of external fraud. Values are estimated when individual loss amounts cannot be precisely determined.

The quantification of operational risk for the Company management is carried out in the context of calculating the risk-bearing capacity using the basis indicator approach according to Article 315 CRR. The estimated risk using this approach and taking growth assumptions into account amounted to EUR 48,510k as per December 31, 2016 (previous year: EUR 37,740k).

Certification of Quality Management

In 1998, TÜV SÜD Management Service GmbH certified GRENKE AG in accordance with DIN EN ISO 9001:1994. Quality management was tested and certified in 2010 by the Technical Certification Body of TÜV SÜD Management Service GmbH in accordance with the new DIN EN ISO 9001:2008 standard. In addition to the certification of the German locations, GRENKEFACTORING GmbH (Germany), Grenke Investitionen Verwaltungs KGaA, which is responsible for asset sales, other locations certified included the subsidiaries in Austria, France, the Netherlands, Switzerland, Spain, Italy, Turkey, Romania, Hungary, Portugal, Finland, Slovakia, Luxembourg, Ireland, GRENKEFACTORING AG Switzerland, GC Leasing d.o.o. Slovenia, the United Kingdom and the franchise companies GC Locação de Equipamentos LTDA Brasil, GF Faktor Zrt Hungary, GC Renting LtD Malta and GC Leasing Middle East FZCO Dubai. TÜV SÜD Management Service GmbH recently conducted an audit of the quality management system of GRENKE AG (including the aforementioned subsidiaries and franchise partners) and, with effect from October 25, 2016, certified that its meets the requirements of the new ISO 9001:2015 standard. The certificate is valid until October 24, 2019.

The Board of Directors regularly assesses the effectiveness of the management system, and any necessary corrective actions are promptly taken.

The original lease contracts that are still in paper form are held in fireproof cabinets and safes. All lease contracts concluded electronically as well as scanned paper documents are in an audit-proof archive for long-term storage. The digital archive is duplicated in two data centres whereby sufficient precautions are in place in the case of any natural hazard. Contract data is stored and processed in specialised IT systems. IT systems play an important role in the processing and management of our leasing business, which is the reason the IT organisation and processes are subject to regular internal audits.

Business Process and IT Risk Management

All core business, management and support processes are aligned with the business strategy, highly standardised and digitised and are continually developed to make them simpler and faster. This is done as part of the ongoing updating of the legacy system and requires a technologically state-of-the-art and highly flexible data and software system architecture whose changes (change management), content and methodology, are systematically recorded and subjected to periodic internal reviews. We achieve high operating reliability through the continued modernisation of the infrastructure based on completely duplicated data centre architecture and the complete virtualisation of servers, storage and networks. IT risk management involves full risk transparency across all functional areas of IT, including the administration; processes; applications; and infrastructure operations including IT security, projects and compliance.

Business Continuity Management

The Consolidated Group has set up a business continuity management system that documents the measures to be taken in the event of an emergency and all necessary information in writing including plans for the continuation and relaunch of business. The aim is to reduce the extent of potential losses. A crisis unit consisting of a manager and the respective team serves as a central tool to respond to a potential crisis. The crisis unit’s responsibilities are broken down into the areas of situation assessment, coordinated actions, communication with the parties involved, activation of measures to relaunch processes and restoring operational continuity.

Precautionary measures, organisational structures and processes are reviewed at least once annually to ensure the suitability, efficiency and accuracy of emergency planning as well as emergency and crisis management.

ICS and Risk Management System Based on the Consolidated Group's Accounting Process

The internal control and risk management system (ICS) contains all principles, procedures and measures introduced to the Company by its management that are geared towards the implementation of management decisions in the organisation and ensures

- the effectiveness and efficiency of business activities, including the protection of assets and the prevention and detection of losses to assets;
- the correctness and reliability of internal and external accounting; and
- compliance with the legal provisions relevant to the Company.

The Board of Directors bears overall responsibility for the accounting process at the Company and the Consolidated Group. All of the companies included in the annual financial statements and the consolidated financial statements are also a part of a clearly defined management and reporting organisation. The Consolidated Group's accounting and consolidation are organised centrally. The posting of each country's transactions is centrally recorded and processed by the responsible administrators in accordance with mandatory schedules for generating qualitative and quantitative information. The four-eye principle is applied. The principles, structures, process organisation and accounting methods used by the ICS are documented in writing and updated at regular intervals.

The electronic systems and the necessary IT infrastructure used for the Consolidated Group's accounting process are regularly reviewed by the Internal Audit department for their compliance with safety requirements. The same applies to the further development of the systems and processes of the Consolidated Group's accounting process and ensuring their effectiveness, especially in terms of new products, issues and changes in the legal regulations. Here we also use external consultants if necessary. The employees involved are trained regularly to guarantee the quality of the Consolidated Group's accounting.

We consider features of the ICS to be significant for accounting and consolidated accounting processes if they can materially influence the accounting and the overall view presented in the financial statements, including the management report. This relates to the following elements in particular:

- Identification of significant risk and control areas relevant to the accounting process
- Controls to monitor the accounting process and its results at the levels of the Board of Directors and the companies included in the financial statements
- Preventative control measures in the finance and accounting systems as well as in the operative, performance-oriented company processes that generate material information for the preparation of the financial statements, including the management report, and a separation of functions and pre-defined approval processes in relevant areas
- Measures that safeguard the orderly IT-based processing of accounting issues and data
- The establishment of an internal audit system to monitor accounting-related ICS

The Consolidated Group also implemented a risk management system for the Consolidated Group-wide accounting process. This system contains measures aimed at identifying and assessing significant risks and corresponding risk mitigation measures to ensure the correctness of the consolidated financial statements. This system also fully incorporates the Company's accounting process. Thus, the risk management system established for the accounting processes of the Company and the Consolidated Group guarantees the preparation of accurate and reliable information for the public.

Risk Reporting on the Use of Financial Instruments

For more information on the objectives and management procedures for the use of financial instruments and the individual types of risks covered by such instruments, please refer to the section "Derivatives Used for Hedging" and the explanations on interest rate and currency risk management in this risk report. No other financial instruments are used.

Equity Information

As per the reporting date for the fiscal year, the total equity pursuant to Section 25ff CRR amounted to EUR 449 million (previous year: EUR 374 million). In December 2016, the hybrid bond issued in 2015 (EUR 30 million) was increased by EUR 20 million. This bond was allocated to additional core capital. Supplementary capital does not exist.

Composition of Core Capital Prior To Adoption

EURk	December 31, 2016	December 31, 2015
Paid-in capital instruments	18,881	18,859
Premium on capital stock	119,043	116,491
Retained earnings	348,215	288,780
Other comprehensive income	1,147	--
Deductions from core capital	–91,991	–85,928
Transitional provisions pursuant to Section 478 CRR	3,410	5,923
Total Tier 1 capital pursuant to Section 26 CRR	398,704	344,125
Total additional core capital pursuant to Section 51 CRR	50,597	30,000
Total supplementary capital pursuant to Section 62 CRR	--	--
Total equity pursuant to Section 25ff CRR	**449,301**	**374,125**

Relevant Risk Positions

EURk	December 31, 2016	December 31, 2015
Equity requirements for credit risk with public authorities	--	--
Equity requirements for credit risk with regional/local authorities	--	--
Equity requirements for credit risk with institutions/corporations with short-term rating	4,452	5,017
Equity requirements for credit risk with corporations	124,517	106,503
Equity requirements for credit risk from retail business	75,450	65,430
Equity requirements for credit risk from other positions	5,617	5,008
Equity requirements for credit risk from investments	976	644
Equity requirements for credit risk from non-performing positions	7,534	7,445
Total equity requirements for credit risk	**218,546**	**190,047**
Total equity requirements for market risk	**23,174**	**16,261**
Total equity requirements for operational risk	**39,971**	**32,380**
Total equity requirements for credit valuation adjustments	**256**	**251**
Total equity requirements	**281,947**	**238,939**

The Consolidated Group’s equity (regulatory equity) consists of paid-in capital, premium on capital stock, retained earnings of previous years, other accumulated income and eligible items of additional core capital. Deductions, which include the most recent amount of intangible assets and goodwill, as well transitional provisions under Section 478 CRR are taken into account.

Because GRENKE AG is the primary institution of a banking group as defined by Section 10a KWG, the Company must ensure that the Consolidated Group regularly complies with the provisions of the Capital Requirement Regulation (CRR). Under the provisions of Section 92 (1) CRR in conjunction with Section 10a KWG, GRENKE AG determines the Consolidated Group's aggregate capital ratio on the basis of IFRS accounting.

Summary Overview

Controlled risk-taking forms a significant part of the GRENKE Consolidated Group's business model. To manage risk, the Consolidated Group has implemented an extensive system for risk identification, quantification, monitoring, and management, which fulfils the regulatory and all other statutory requirements. This system is appropriate and able to identify significant risks at an early stage, is very sophisticated and is enhanced on an ongoing basis.

Sufficient precautions have been taken to offset the identified counterparty default risk, market price risk, liquidity risk and operational risk arising from our leasing, banking, factoring and investment businesses. The corresponding write-downs, impairments, and provisions considered in the consolidated financial statements were recognised appropriately using objective information. Risk-bearing capacity in the reporting year was ensured entirely. GRENKE Consolidated Group's total exposure to any single lessee does not exceed one percent of the Consolidated Group's equity.

According to the regulatory standards, the regulatory minimum capital ratio must amount to 9.3 percent as per the reporting date. The Consolidated Group's overall ratio remained above twelve percent throughout the year. As per the reporting date, the Consolidated Group's overall ratio amounted to 12.75 percent (previous year: 12.53 percent) and thereby significantly exceeded the capital requirements for the group of institutions, offering sufficient room for their planned development.

No specific business-related risks can be identified that exceed the customary level with respect to the future development of the Consolidated Group, the Company and its subsidiaries. The risk cover is sufficient enough to map out the planned future business activities.

Report on Forecasts and Outlook

Business Performance and Future Direction

GRENKE Group's New Business Development

Given our competitive strength and excellent market position, we are also optimistic about our new business growth. Based on the expectation of continued high growth in our three important markets of Germany, France and Italy, we expect new business in our Leasing segment (GRENKE Group Leasing) to grow between 11 and 16 percent. New business at GRENKE Group Factoring should rise between 12 and 20 percent. Overall, we are confident that we will be able to refinance our new business in 2017 at attractive conditions through the variety of capital market options available to us. A material contribution to our refinancing is expected to be made once again by GRENKE BANK AG, whose deposit business we actively manage. We will also continue to stand by our target of a consistently profitable, risk-adequate CM2 margin.

Development of the GRENKE Consolidated Group

On the basis of the opportunity and risk situation presented and our planning, we expect to maintain our high growth and generate a renewed increase in the Consolidated Group's net profit in the 2017 fiscal year. The key drivers for the favourable performance expected are the high momentum of the Leasing segment's new business in the past few years, a continued rise in net interest income and a stable cost/income ratio. We will also profit from the current high-margin new business, the deposit business of GRENKE Bank and the ongoing growth in the factoring business. Thus, for the current 2017 fiscal year, we expect net profit in the range of EUR 113 to 123 million. This corresponds to an increase of at least nine percent compared to the net profit of EUR 103.2 million generated in the reporting year and would once again set a new record in the GRENKE Consolidated Group's history.

This performance is also expected to give us the leeway necessary to continue our attractive dividend policy in the current 2017 fiscal year so that shareholders can participate in the Company's success.

Material risks that could cause a divergence from our plan are listed below:

- A dramatic reversal in capital market trends (interest rate risk): A cyclical rise in government bond yields, particularly high-grade bonds, may increase their attractiveness and cause spreads to widen on the capital markets resulting in a corresponding potential temporary bottleneck in liquidity and a change in the general refinancing situation for companies. Although we are able to pass on higher refinancing costs in our contract conditions, this may only occur after a certain time lag. We consider the risk of a rise in interest rates in Europe as high in view of the change in U.S. interest rate policy and the announcement by the U.S. Federal Reserve of further increases in short-term interest rates in 2017 and in light of the strong indication of an expansionary economic policy from the new U.S. administration. Although the signals of the European Central Bank still point to an expansionary monetary policy, a possible rise in U.S. interest rates may also have an effect, albeit a weaker one, on long-term yields in Europe.
- A substantial change in the business policies of banks and financial services units of IT manufacturers lead towards their growing return to the leasing business: This could lead to increased (margin) competition and pricing pressure. The probability of this type of development in 2017 is considered rather low because it would require relatively long lead times. The small-ticket area should be only slightly affected due to its traditionally high barriers to entry.
- A sharper rise in losses: Traditionally, rises in losses lag poor economic development. This means that even a sharp economic downturn in 2017 will not result in a sharp rise in losses until a later time. Our efficient control, which effectively keeps the development of losses in check, should also help to lessen a rise in losses. What is more, the expectation for fiscal year 2017 might rather be a continued stabilisation in global economic growth. Therefore, we believe it is unlikely that there will be a sharp economic downturn in 2017.
- Changes due to taxation: Changes to the applicable tax laws and regulations in the respective countries could lead to higher tax expenses and payments. The tax payments due as a result of the tax audit in Germany completed in the year under review for the years 2005 to 2009 have been made. A related tax receivable was recognised based on the estimation of the Company's management as well as external expert opinions. A tax provision was recognised for the ongoing audit. Should there be any new findings or other assessments in the context of the appeal process, there is the risk that the Company may incur higher tax expenses for the corresponding audit period.

Financial Position and Net Assets

The GRENKE Consolidated Group's financial position and net assets are expected to improve again in 2017 due to higher net profits, particularly in light of the increasing net interest income generated from the high new business growth of prior years and the actively managed deposit business of GRENKE Bank. Based on the anticipated increase in net profit, we expect the higher cash flow from operating activities to be sufficient to fully fund our planned investments. The equity ratio is not expected to fall short of the long-term 16 percent target.

General Statement on Future Developments

The stated goal of the GRENKE Consolidated Group in the coming years will continue to be to maintain profitable growth and thereby consistently expand our position as one of the leading European providers of leasing, banking and factoring services for small and medium-sized enterprises. With its solid financial position, solid reputation on the capital markets and the ability to enforce risk-adequate margins, GRENKE Consolidated Group is ideally prepared. Opening up new markets is equally a part of our strategy as is our aim to further penetrate our existing markets. From today's standpoint, we see no factors that could have a negative effect on the GRENKE Consolidated Group's further development.

Acquisition-Related Information

Shareholdings and Share Transactions of Governing Bodies

Detailed information on the shareholdings of governing bodies as per December 31, 2016 is contained in the Notes to the Consolidated Financial Statements in the section "Related Party Disclosures". Information on share transactions by governing bodies during the reporting year can be found on our homepage www.grenke.de/en under the section "Investor Relations/Corporate Governance".

Explanatory Report on the Disclosures Pursuant to Section 289 (4) and Section 315 (4) HGB

The shares of GRENKE AG have been admitted for trading on the Frankfurt Stock Exchange in the segment of the regulated market with additional post-admission obligations defined by Deutsche Börse AG (Prime Standard segment). The Company's fully paid-up share capital amounts to EUR 18,880,774.47 and is divided into 14,771,034 registered shares each with a notional interest in the share capital of around EUR 1.28. All shares carry the same rights, and there are no restrictions on voting rights, preference shares or special control rights.

In July 2014, Mr Wolfgang and Mrs Anneliese Grenke, together with their sons Moritz Grenke, Roland Grenke and Oliver Grenke (the Grenke family), formed a family holding under the name Grenke Beteiligung GmbH & Co. KG to ensure continuity and a stable shareholder structure. On September 17, 2014, the Grenke family contributed all of their shares held in GRENKE AG to this company. The pooling agreement concluded by the members of the Grenke family was cancelled upon the contribution of the shares in Grenke Beteiligung GmbH & Co. KG.

As per December 31, 2016, the family holding, Grenke Beteiligung GmbH & Co. KG, held 6,301,986 shares in the Company, corresponding to 42.66 percent of the share capital. Grenke Vermögensverwaltung GmbH is the general partner of Grenke Beteiligung GmbH & Co. KG. Wolfgang, Anneliese, Moritz, Roland and Oliver Grenke are limited partners. Grenke Vermögensverwaltung GmbH does not have an interest in Grenke Beteiligung GmbH & Co. KG's assets and earnings. Mr Wolfgang Grenke and Mrs Anneliese Grenke each have the right to sole representation as Executive Director. Mr Wolfgang Grenke exercises significant influence over Grenke Vermögensverwaltung GmbH and, therefore, indirectly over Grenke Beteiligung GmbH & Co. KG. Mr Wolfgang Grenke simultaneously acts as Chairman of the Board of Directors of GRENKE AG. By decision of September 1, 2014, the German Federal Financial Supervisory Authority exempted Grenke Beteiligung GmbH & Co. KG and Grenke Vermögensverwaltung GmbH from the duties of Section 35 (1) sentence 1 and Section 35 (2) sentence 1 WpÜG according to Section 37 WpÜG (obligation to make a mandatory offer for the shares of GRENKE AG).

The Board of Directors is not aware of any other restrictions agreed on between shareholders that relate to voting rights or the transfer of shares.

The Articles of Association of GRENKE AG do not provide for any regulations that deviate from the statutory regulations on the appointment of members of the Board of Directors by the Supervisory Board. These stipulate that the members of the Board of Directors are appointed for a maximum of five years. Reappointment is permitted.

The Board of Directors of GRENKE AG consists of at least two members. The Supervisory Board determines the number of members of the Board of Directors and decides on their appointment and dismissal and the conclusion, amendment, and termination of their contracts of employment. The Supervisory Board can appoint a Chairman and Deputy Chairman of the Board of Directors as well as alternative members of the Board of Directors.

In accordance with statutory requirements, amendments to the Articles of Association must be adopted by a resolution of the Annual General Meeting. Unless otherwise required by law, the resolutions of the Annual General Meeting are passed by a simple majority of the votes cast and, if legislation requires, a capital majority as well as a majority vote by a simple majority of the share capital represented. The Supervisory Board is authorised to resolve amendments to the Articles of Association that relate solely to their wording. In addition, the Supervisory Board is authorised to amend the wording of Article 4 of the Articles of Association governing the amount and division of the share capital, among other things, to reflect the utilisation of Authorised Capital and after the end of the authorisation period.

There are no compensation agreements with the members of the Board of Directors or with employees in the event of a takeover bid. No further disclosures are made pursuant to DRS 20 K211 (conditions of a change of control in case of a takeover bid) because such disclosures could be extremely disadvantageous to the parent company.

Detailed information regarding authorised and contingent capital is presented in the Notes the Consolidated Financial Statements in section 4.17 "Equity".

Changes to the Board of Directors and Supervisory Board

We refer to the section "Changes in the Governing Bodies".

Corporate Governance Statement Pursuant to Sections 289 a and 315 (5) HGB

As a listed stock corporation and as a parent company, we are required to submit a Corporate Governance Statement pursuant to Sections 289 a and 315 (5) HGB that contains the Declaration of Conformity in accordance with Section 161 AktG, disclosures on corporate management practices, and a description of the working practices of the Board of Directors and the Supervisory Board.

The Declaration of Conformity in accordance with Section 161 AktG of GRENKE AG and the Corporate Governance Statement are available online at www.grenke.de/en/investor-relations/corporate-governance.

Management Report of GRENKE AG

In the following management report, we discuss the development of GRENKE AG (the "Company") in the 2016 fiscal year in addition to the information reported on the GRENKE Consolidated Group. The Company’s financial statements are prepared in accordance with the provisions of the German Commercial Code (HGB). In terms of the economic environment and sector trends, there were no material differences to report that would have affected solely the Company’s development. In addition to the fiscal year’s key events described, the Company is also required to report on the tax audit initiated in November 2010 for fiscal years 2005 to 2009 and completed in the 2016 fiscal year. For more information on this, please refer to the explanations in the Notes.

Corporate Law Framework, Affiliation to the Consolidated Group

GRENKE AG was formed in 1997 under the former name GRENKELEASING AG. Grenke Investitionen Verwaltungs Kommanditgesellschaft auf Aktien (the "KGaA") was also formed in the same year. Both companies represent a structural business separation with GRENKE AG serving as the operating company and the KGaA as the holding company. Using a two-level model, the operating company rents lease assets from the holding company and then leases these assets to sub-lessees. GRENKE AG holds a direct and indirect interest of 100 percent in the KGaA. A control and profit transfer agreement has been in effect since January 1, 2002. Together with the consolidated subsidiaries and structured entities of GRENKE AG under IFRS, these form the GRENKE Consolidated Group.

Overview of Branches and Subsidiaries

The Company has branches in Berlin, Bielefeld, Bremen, Cologne, Dortmund, Dresden, Düsseldorf, Erfurt, Freiburg, Frankfurt am Main, Hamburg, Hanover, Heilbronn, Kassel, Kiel, Leipzig, Magdeburg, Mannheim, Mönchengladbach, Munich, Neu-Ulm, Nuremberg, Potsdam, Regensburg, Rostock, Saarbrücken and Stuttgart. It also holds 100 percent of the shares in GRENKE SERVICE AG, Baden-Baden, GRENKEFACTORING GmbH, Baden-Baden and GRENKE BANK AG, Baden-Baden, via its investment in Grenke Investitionen Verwaltungs KGaA.

As per the end of the reporting year, GRENKE AG held a direct 100 percent interest in each of the following companies outside of Germany: GRENKELEASING GmbH, Vienna/Austria; GRENKELEASING AG, Zurich/Switzerland; GRENKEFACTORING AG, Basel/Switzerland; GRENKELEASING s.r.o., Prague/Czech Republic; GRENKE ALQUILER S.L., Barcelona/Spain; GRENKELEASING ApS, Herlev/Denmark; Grenkefinance N.V., Vianen/Netherlands; GRENKE LIMITED and GRENKE FINANCE Plc, Dublin/Ireland; GRENKE LOCATION SAS, Schiltigheim/France; GRENKE Locazione S.r.l., Milan/Italy; GRENKELEASING AB, Stockholm/Sweden; Grenke Leasing Ltd., Guildford/UK; GRENKELEASING Sp. z o.o., Poznan/Poland; GRENKELEASING Magyarország Kft. Budapest/Hungary; GRENKE LEASE Sprl, Brussels/Belgium; S.C. Grenke Renting S.R.L, Bucharest/Romania; GRENKE RENTING S.A., Lisbon/Portugal; GRENKELEASING Oy, Vantaa/Finland; GRENKELEASING s.r.o., Bratislava/Slovakia; GRENKELOCATION SARL, Munsbach/Luxembourg; GRENKELEASING d.o.o., Ljubljana/Slovenia, GRENKE RENT S.L, Madrid/Spain and GRENKE Kiralama Ltd. Sti., Istanbul/Turkey. It also holds an indirect 100 percent interest in FCT "GK"-Compartment "G2", Pantin, France.

Financial Situation

The annual financial statements of GRENKE AG as per December 31, 2016 were prepared in accordance with the provisions of the German Commercial Code, the German Stock Corporation Act and the German Ordinance Regulating the Accounting Requirements for Financial Institutions.

Selected Key Figures from the Income Statement and Statement of Financial Position

EURk	**2016**	**2015**
Income from leases	529,662	536,070
Expenses from leases	392,147	407,579
Profit from leases	**137,515**	**128,491**
Net interest income	–4,010	–1,015
Other operating income	26,122	24,609
General and administrative expenses	60,348	51,660
Staff costs	*28,788*	*26,708*
Depreciation and impairment	95,403	89,276
Net profit	**34,077**	**22,391**
	December 31, 2016	**December 31, 2015**
Investments in associated companies	297,834	245,724
Leased assets	267,343	223,312
Property, plant and equipment	24,687	25,628
Other assets	52,007	32,199
Receivables	52,099	54,589
Equity	263,429	248,694
Bank liabilities	4	403
Payables	46,811	45,400
Accruals and deferrals	285,634	228,393
Total assets	**862,284**	**692,472**

Results of Operations

Income from leases of EUR 529.7 million in the reporting year was just slightly below the previous year's level of EUR 536.1 million. Because lease expenses declined at a faster rate than lease income, the profit from leases rose 7 percent from EUR 128.5 million to EUR 137.5 million.

The Company's net interest income amounted to EUR –4.0 million after EUR –1.0 million in 2015. The reason for this development is an expense that was recognised in the course of the completed audit. Current income from investments in associated companies once again made a significant positive earnings contribution as a result of a dividend payment of EUR 45.0 million from GRENKE FINANCE Plc, Dublin/Ireland (previous year: EUR 22.0 million). Whereas other operating income and income from profit transfer agreements increased slightly, commission expenses remained essentially flat at EUR 5.5 million (previous year: EUR 5.4 million). Other operating expenses rose from EUR 0.3 million in the previous year to EUR 4.9 million but still accounted for a relatively low share of total expenses. General and administrative expenses, which also include staff costs, increased from EUR 51.7 million in 2015 to EUR 60.3 million in the reporting year due to the Company's growth and continued expansion and optimisation of its IT systems.

Depreciation, amortisation and impairment on intangible assets and property, plant and equipment rose from EUR 89.3 million to EUR 95.4 million as a result of the higher level of leased assets. Write-downs and impairments on receivables and securities as well as additions to loan loss provisions in the lending business nearly halved in the reporting year and amounted to EUR 8.9 million (previous year: EUR 16.7 million). No write-downs and impairments of investments, shares in associated companies or securities classified as fixed assets were recognised in the reporting year (previous year: EUR 1.7 million).

The result from normal business activity in the reporting year amounted to EUR 40.1 million compared to EUR 22.2 million in the previous year. After tax expenses of EUR 6.0 million (previous year: tax benefit of EUR 0.2 million), net profit grew from EUR 22.4 million in the prior year to EUR 34.1 million.

Report on Financial Position and Net Assets

GRENKE AG's total assets increased significantly again in 2016, climbing nearly 25 percent to EUR 862.3 million after EUR 692.5 million in the previous year. This increase resulted from various factors, including the requirement to increase cash reserves from EUR 45.0 million to EUR 77.0 million following last year's regulation requiring a cash deposit at Deutsche Bundesbank for the first time. Cash and cash equivalents remained at an immaterial level. Additionally, receivables from credit institutions and investments in associated companies rose by 42 percent (EUR 76.8 million vs. EUR 54.0 million) and 21 percent (EUR 297.8 million vs. EUR 245.7 million), respectively. The rise in receivables from credit institutions resulted from an additional promissory note of EUR 20.0 million in the reporting year issued by GRENKE BANK AG, which was fully subscribed to by the Company. Lease assets grew a nearly 20 percent to EUR 267.3 million compared to EUR 223.3 million in the previous year. The Company also acquired lease assets in several tranches during the reporting year from the KGaA. The volume of these transactions increased by 44 percent year-over-year as did the lease assets under these transactions, and resulted from the continued high growth of the Consolidated Group's leasing business. The lease assets serve as collateral for the sold lease receivables. Whereas customer receivables declined slightly, there was an increase in other assets from EUR 32.2 million to EUR 52.0 million in the reporting year, which was mainly driven by higher receivables from associated companies.

As in the previous year, the largest item listed on the liabilities side of the balance sheet is accruals and deferrals, which increased 25 percent from EUR 228.4 million to EUR 285.6 million. The majority of accruals and deferrals continued to relate to deferrals from forfaiting instalments of lease contracts. Whereas bank liabilities have meanwhile reached an insignificant level, liabilities to customers increased marginally by three percent to EUR 46.8 million. In contrast, the Company's liabilities to associated companies, which are contained under other liabilities, continued to rise strongly. The overdraft facility provided in the previous year by GRENKE FINANCE Plc for the first time to finance balances held at the Deutsche Bundesbank was increased in the reporting year following the rise in that balance. As per December 31, 2016, the utilisation of the facility was EUR 77.0 million after EUR 45.0 million at the end of the prior year. Total other liabilities as per the 2016 reporting date amounted to EUR 206.9 million after totalling EUR 135.0 million in the previous year. Subordinate liabilities of EUR 50.0 million were recorded in the context of the increase in the unsecured, subordinate hybrid bond by EUR 20.0 million to a total of EUR 50.0 million.

The Company's equity grew to EUR 263.4 million (previous year: EUR 248.7 million). Based on total assets the equity ratio as per the reporting date was 30.6 percent (previous year: 35.9 percent).

Liquidity and Refinancing

The financing of new business in leasing continues to be on solid footing. GRENKE BANK AG is the Company's direct refinancing partner. To refinance its business, GRENKE AG regularly sells lease receivables to GRENKE BANK AG. The deposits at GRENKE Bank used for this refinancing increased from EUR 349.3 million in the previous year to EUR 417.1 million in the reporting year. Additional financing was provided in the context of cash pooling through the Company's internal clearing account. The net balance as per the reporting date was EUR 122.3 million (previous year: EUR 81.2 million).

Private placements can also be carried out directly or indirectly by our wholly owned subsidiary GRENKE FINANCE Plc, Dublin/Ireland. A total of six new bonds were issued and two bonds were increased in the reporting year with a nominal volume totalling EUR 401 million. Two bonds with a total volume of EUR 235 million were redeemed. Our Irish subsidiary also has access to six revolving loan facilities with a combined volume of EUR 150 million as well as two money market facilities of a combined EUR 40 million. One of these two money market facilities and one of the revolving loan facilities can also be drawn on in Swiss francs via our Swiss subsidiary.

There are also five ABCP programmes Consolidated Group-wide with a potential total volume of EUR 735 million. Under these programmes, GRENKE FINANCE Plc and the KGaA have the right to sell receivables to the programmes for a specific period or use the programmes to obtain refinancing. GRENKE AG and GRENKE FINANCE Plc also have the ability to issue commercial paper up to a total of EUR 500 million with maturities between 1 and 364 days. As per the reporting date, the utilisation of the commercial paper programme amounted to EUR 201 million (previous year: EUR 196 million).

Overall Statement on the Company's Business Performance and the Financial Situation

At the time of completing the 2016 financial statements and management report, the Company finds itself in a very favourable economic position and expects to continue its international expansion, increase new business and maintain net profit at the level achieved in the reporting year.

Two-Level Model

Under the two-level model, the lease items of the new business are partially rented from the KGaA. The KGaA's rent receivables are sold to financial institutions via structured entities as part of three ABCP programmes or locally to two savings banks (forfeited). The underlying contractual agreements secure financing for new business, even if volumes increase.

Dividends

The Board of Directors and the Supervisory Board will propose a dividend of EUR 1.75 per share for fiscal year 2016 at the fiscal year 2016 Annual General Meeting on May 11, 2017. In the previous year, the Company distributed a dividend of EUR 1.50 per share.

Employees

In the reporting year, the number of full-time employees (excluding the Board of Directors) increased to an average of 384 (previous year: 365). The staff turnover rate of 9.3 percent significantly increased over the 4.0 percent reported for the previous year. The staff turnover rate among the management and senior executives, however, continued to be at a low level.

Subsequent Events

No events of significant importance to the assets, financial condition, or earnings situation have occurred since the end of the fiscal year.

Report on Risks, Opportunities, and Forecasts

Risks and Opportunities

The risk and opportunities described for the Consolidated Group also largely apply to the Company. However, the German domestic market continues to play a special and more important role for the Company than for the Consolidated Group as a whole. The Company is not exposed to currency risk because it does not enter into cross-border transactions with countries outside the eurozone.

Report on Forecasts and Outlook

After another year of solid business development in the reporting year, we are also very optimistic about the prospects for the current 2017 fiscal year. The Company’s future results can be materially influenced by changes in the regulatory environment or in the options for refinancing, which in turn could influence the refinancing decisions of the Board of Directors. We anticipate high single-digit growth in our new business in Germany. Depending on the level of income from investments and any profit transfers from subsidiaries, we expect the net profit of GRENKE AG to remain at a level similar to that of the past two fiscal years. The key factors influencing the 2017 fiscal year’s business development are expected to continue to be an influence in the years ahead. Details on the Consolidated Group development can be found in the section "Report on Forecasts and Outlook" in the combined management report.

Baden-Baden, January 31, 2017
The Board of Directors

CONTENT

CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 2016

Consolidated Income Statement

EURk	Note	Jan. 1 to Dec. 31, 2016	Jan. 1 to Dec. 31, 2015
Interest and similar income from financing business	4.1	260,958	239,001
Expenses from interest on refinancing and deposit business	4.1	43,168	47,797
Net interest income		**217,790**	**191,204**
Settlement of claims and risk provision	4.2	55,089	59,369
Net interest income after settlement of claims and risk provision		**162,701**	**131,835**
Profit from service business*	4.3	59,279	50,801
Profit from new business	4.4	58,799	50,068
Gains(+) / losses (–) from disposals	4.5	–5,985	–644
Income from operating business		**274,794**	**232,060**
Staff costs	4.6	70,624	63,190
Depreciation and impairment	4.7	9,296	7,969
Selling and administrative expenses (not including staff costs)	4.8	58,380	52,689
Other operating expenses	4.9	4,016	4,406
Other operating income	4.10	4,049	5,531
Operating result		**136,527**	**109,337**
Result from investments accounted for using the equity method		–235	0
Expenses / income from fair value measurement		–868	18
Other interest income		532	423
Other interest expenses		1,420	317
Earnings before taxes		**134,536**	**109,461**
Income taxes	4.11	31,302	28,616
Net profit		**103,234**	**80,845**
Of which, attributable to:			
Hybrid capital holders of GRENKE AG		1,771	771
Shareholders of GRENKE AG		101,463	80,074
Earnings per share (basic) in EUR	4.12	6.87	5.43
Earnings per share (diluted) in EUR	4.12	6.87	5.43
Average number of shares outstanding (basic)	4.12	14,764,042	14,754,199
Average number of shares outstanding (diluted)	4.12	14,764,042	14,754,199

* The previous designation "profit from insurance business" was changed for reasons of clarity.

Consolidated Statement of Comprehensive Income

EURk	Note	Jan. 1 to Dec. 31, 2016	Jan. 1 to Dec. 31, 2015
Net profit		**103,234**	**80,845**
Items that may be reclassified to profit and loss in future periods			
Appropriation to / reduction of hedging reserve	4.13	115	–18
thereof: income tax effects		–10	0
Change in currency translation differences		–4,281	3,721
thereof: income tax effects		0	0
		–4,166	**3,703**
Items that will not be reclassified to profit and loss in future periods			
Appropriation to / reduction of reserve for actuarial gains and losses	5.16	–151	–485
thereof: income tax effects		58	138
Other comprehensive income		**–4,317**	**3,218**
Total comprehensive income		**98,917**	**84,063**
Of which, attributable to:			
Hybrid capital holders of GRENKE AG		1,771	771
Shareholders of GRENKE AG		97,146	83,292

Consolidated Statement of Financial Position

EURk	Note	Dec. 31, 2016	Dec. 31, 2015
Assets			
Current assets			
Cash and cash equivalents	5.2	156,896	186,453
Financial instruments that are assets	5.1	3,688	250
Lease receivables	5.3	1,141,000	1,004,360
Other current financial assets	5.4	93,090	63,828
Trade receivables	5.5	4,474	4,272
Lease assets for sale		5,969	7,073
Tax assets		23,555	17,569
Other current assets	5.6	180,291	143,788
Total current assets		**1,608,963**	**1,427,593**
Non-current assets			
Lease receivables	5.3	2,129,110	1,849,812
Financial instruments that are assets	5.1	29	27
Other non-current financial assets	5.4	73,643	47,195
Investments accounted for using the equity method		5,133	5,368
Property, plant and equipment	5.7	48,369	46,351
Goodwill	5.8	66,515	62,161
Other intangible assets	5.9	20,069	17,171
Deferred tax assets	5.10	17,927	17,649
Other non-current assets		1,694	1,203
Total non-current assets		**2,362,489**	**2,046,937**
Total assets		**3,971,452**	**3,474,530**

Consolidated Statement of Financial Position

EURk	Note	Dec. 31, 2016	Dec. 31, 2015
Liabilities and equity			
Liabilities			
Current liabilities			
Financial liabilities	5.11	1,227,581	1,061,744
Liability financial instruments	5.12	1,225	2,124
Trade payables		16,663	10,489
Tax liabilities		13,117	10,107
Deferred liabilities	5.15	15,976	12,666
Current provisions	5.14	1,646	1,764
Other current liabilities	5.13	20,396	17,294
Deferred lease payments		31,908	82,908
Total current liabilities		**1,328,512**	**1,199,096**
Non-current liabilities			
Financial liabilities	5.11	1,894,474	1,630,600
Liability financial instruments	5.12	1,751	1,316
Deferred tax liabilities	5.10	51,514	48,619
Pensions	5.16	4,781	4,245
Total non-current liabilities		**1,952,520**	**1,684,780**
Equity	5.17		
Share capital		18,881	18,859
Capital reserves		119,043	116,491
Retained earnings		498,807	419,068
Other components of equity		1,148	5,465
Total equity attributable to shareholders of GRENKE AG		**637,879**	**559,883**
Additional equity components*		52,541	30,771
Total equity		**690,420**	**590,654**
Total liabilities and equity		**3,971,452**	**3,474,530**

* Including an AT1 bond (hybrid capital), which represents an unsecured and subordinated bond of GRENKE AG that is reported as equity under IFRS.

Consolidated Statement of Cash Flows

EURk		Jan. 1 to Dec. 31, 2016	Jan. 1 to Dec. 31, 2015
	Earnings before taxes	**134,536**	**109,461**
	Non-cash items contained in earnings and reconciliation to cash flow from operating activities		
+	Depreciation and impairment	9,296	7,969
– / +	Profit / loss from the disposal of property, plant, and equipment and intangible assets	72	69
– / +	Net income from non-current financial assets	888	–106
– / +	Other non-cash effective income / expenses	–2,542	3,527
+ / –	Increase / decrease in deferred liabilities, provisions, and pensions	3,727	3,132
–	Additions to lease receivables	–1,598,007	–1,392,808
+	Payments by lessees	1,204,226	1,051,872
+	Disposals / reclassifications of lease receivables at residual carrying amounts	206,099	187,711
–	Interest and similar income from leasing business	–253,892	–232,758
+ / –	Decrease / increase in other receivables from lessees	3,511	6,388
+ / –	Currency translation differences	29,084	–18,239
=	Change in lease receivables	–408,979	–397,834
+	Addition to liabilities from refinancing	1,322,704	990,611
–	Payment of annuities to refinancers	–959,057	–682,625
–	Disposal of liabilities from refinancing	–31,952	–23,896
+	Expenses from interest on refinancing and on deposit business	43,168	47,797
+ / –	Currency translation differences	–13,800	10,509
=	Change in refinancing liabilities	361,063	342,396
+ / –	Increase / decrease in liabilities from deposit business	67,785	48,947
– / +	Increase / decrease in loans to franchisees	–1,855	–11,788
	Changes in other assets / liabilities		
– / +	Increase / decrease in other assets	–90,717	–21,884
+ / –	Increase / decrease in deferred lease payments	–51,076	56,036
+ / –	Increase / decrease in other liabilities	–5,419	5,430
=	**Cash flow from operating activities**	**16,779**	**145,355**

continued on next page

Consolidated Statement of Cash Flows

EURk		Jan. 1 to Dec. 31, 2016	Jan. 1 to Dec. 31, 2015
– / +	Income taxes paid / received	–32,132	–25,634
–	Interest paid	–1,420	–317
+	Interest received	532	423
=	**Net cash flow from operating activities**	**–16,241**	**119,827**
–	Payments for the acquisition of property, plant and equipment and intangible assets	–11,832	–11,330
– / +	Payments / proceeds from acquisition of subsidiaries/associated entities and financial assets	–3,485	–13,077
+	Proceeds from the sale of property, plant and equipment and intangible assets	370	166
=	**Cash flow from investing activities**	**–14,947**	**–24,241**
+ / –	Borrowing / repayment of bank liabilities	1,607	–173
+	Proceeds from cash capital increase	0	0
+	Net proceeds from hybrid capital	21,604	29,469
–	Interest payment on hybrid capital	–1,711	0
–	Dividend payments	–19,557	–16,230
=	**Cash flow from financing activities**	**1,943**	**13,066**
	Cash funds at beginning of period		
	Cash in hand and bank balances	186,453	88,395
–	Bank liabilities from overdrafts	–875	–10,900
=	**Cash and cash equivalents at beginning of period**	**185,578**	**77,495**
+ / –	Change due to currency translation	432	–569
=	**Cash funds after currency translation**	**186,010**	**76,926**
	Cash funds at end of period		
	Cash in hand and bank balances	156,896	186,453
–	Bank liabilities from overdrafts	–131	–875
=	**Cash and cash equivalents at end of period**	**156,765**	**185,578**
	Change in cash and cash equivalents during the period (= total cash flow)	**–29,245**	**108,652**
	Net cash flow from operating activities	–16,241	119,827
+	Cash flow from investing activities	–14,947	–24,241
+	Cash flow from financing activities	1,943	13,066
=	**Total cash flow**	**–29,245**	**108,652**

Consolidated Statement of Changes in Equity

EURk	Share capital	Capital reserves	Retained earnings / Consoli-dated net profit	Hedging reserve	Reserve for actuarial gains / losses	Currency translation	Total equity attributable to shareholders of GRENKE AG	Additional equity components	Total equity
Equity as per Jan. 1, 2016	**18,859**	**116,491**	**419,068**	**–25**	**–1,405**	**6,895**	**559,883**	**30,771**	**590,654**
Total comprehensive income			101,463	115	–151	–4,281	97,146	1,771	98,917
Dividend payment in 2016 for 2015			–22,131				–22,131		–22,131
Capital increase (Shares issued from Scrip Dividend)	22	2,552					2,574		2,574
Issuance of hybrid capital			600				600	21,193	21,793
Cost of issuance of hybrid capital			–190				–190		–190
Reversal of premium on hybrid capital			–3				–3	3	0
Interest payment on hybrid capital (net)								–1,197	–1,197
Equity as per Dec. 31, 2016	**18,881**	**119,043**	**498,807**	**90**	**–1,556**	**2,614**	**637,879**	**52,541**	**690,420**
Equity as per Jan. 1, 2015	**18,859**	**116,491**	**355,389**	**–7**	**–920**	**3,174**	**492,986**	**0**	**492,986**
Total comprehensive income			80,074	–18	–485	3,721	83,292	771	84,063
Issuance of hybrid capital								30,000	30,000
Cost of issuance of hybrid capital			–165				–165		–165
Dividend payment in 2015 for 2014			–16,230				–16,230		–16,230
Equity as per Dec. 31, 2015	**18,859**	**116,491**	**419,068**	**–25**	**–1,405**	**6,895**	**559,883**	**30,771**	**590,654**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 2016

1 General Information

GRENKE AG is a stock corporation with its registered office located at Neuer Markt 2, Baden-Baden, Germany. The Company is recorded in the commercial register at the local court of Mannheim, Section B, under HRB 201836. The Annual General Meeting of May 3, 2016 resolved to change the Company’s name to GRENKE AG (previous name: GRENKELEASING AG). GRENKE AG is the parent company of the GRENKE AG Consolidated Group ("the GRENKE Consolidated Group"). GRENKE AG is also a listed parent company trading on an organised market as defined by Section 2 (5) WpHG.

The GRENKE Consolidated Group conducts financing business and is a partner for mainly small and medium-sized enterprises. Its products and services range from leasing to factoring and include various payment transaction services as well as a deposit business for private customers.

The consolidated financial statements of GRENKE AG as per December 31, 2016 (the "consolidated financial statements") include the financial statements of GRENKE AG, its subsidiaries and consolidated structured entities. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as applicable in the European Union (EU) and the supplementary regulations applicable under German commercial law in accordance with Section 315 a HGB.

The consolidated financial statements were prepared in euro (EUR). Unless stated otherwise, all figures are rounded and stated in thousands of euro (EURk). The accounting policies applied correspond with those of the previous year. Exceptions are listed in Note 2.1 and relate to changes resulting from the mandatory adoption of new or amended accounting standards.

The Supervisory Board plans to adopt these consolidated financial statements prepared by the Board of Directors on January 31, 2017 and will approve them for publication at its meeting on February 1, 2017.

2 Changes in Accounting

2.1 Accounting Standards Implemented in 2016

In recent years, the International Accounting Standards Board (IASB) has published various amendments to existing IFRSs and new IFRSs as well as interpretations of the IFRS Interpretations Committee (IFRS IC). The IASB has also published amendments to existing standards as part of an annual procedure (Annual Improvements Project; AIP). The primary aim of the collective standards is to eliminate inconsistencies and clarify their wording. The following amendments to the standards had no impact on the consolidated financial statements of GRENKE AG:

- Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"
- Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"
- Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation"
- Amendments to IAS 16 und IAS 41 "Agriculture: Bearer Plants"

- Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"
- Amendments to IAS 27 "Equity Method in Separate Financial Statements"
- Annual Improvements to IFRS: 2010 – 2012 Cycle
- Annual Improvements to IFRS: 2012 – 2014 Cycle

The following describes the accounting rules that are relevant for the GRENKE Consolidated Group and were applied in the preparation of the consolidated financial statements.

Amendments to IAS 1 "Disclosure Initiative"

The amendments to IAS 1 "Disclosure Initiative" concern various disclosure issues and specify that it is only necessary to provide information in the financial statements when the content of the information is material. The materiality principle is to be applied to the financial statements and explicitly also applies if a standard requires a list of minimum disclosures. Additionally, the standard includes explanations on the aggregation and disaggregation of line items in the statement of financial position, the income statement and other comprehensive income. Furthermore, the standard clarifies how the interest in other comprehensive income of entities accounted for using the equity method should be presented in the statement of other comprehensive income. The sample structure of the notes was also eliminated. Following the amendment to IAS 1, portions of the notes were summarised. The amendments to IAS 1 had no other impact on the consolidated financial statements.

2.2 Accounting Standards and Interpretations Already Published but not yet Implemented

In addition to the applicable mandatory IFRSs mentioned above, the IASB has also published other amended IASs and IFRSs that will only become mandatory at a later date. Many of these standards have already received endorsement into European law by the EU. Voluntary early application of these standards is expressly permitted and/or recommended. GRENKE AG is not making use of this option. These standards will be implemented in the consolidated financial statements when their adoption becomes mandatory. In the following, a distinction is made as to whether standards have already been adopted (""endorsed") into European law (date of mandatory first-time application in parenthesis):

Already adopted into European law ("endorsed")

- IFRS 9 "Financial Instruments" (January 1, 2018)
- IFRS 15 "Revenue from Contracts with Customers" (January 1, 2018)

Not yet adopted into European law ("not endorsed") (in parenthesis: IASB date of mandatory first-time application):

- IFRS 14 "Regulatory Deferral Accounts" (January 1, 2016)
- IFRS 16 "Leases" (January 1, 2019)
- Amendments to IAS 7 "Statement of Cash Flows – Disclosure Initiative" (January 1, 2017)
- Amendments to IAS 12 "Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses" (January 1, 2017)
- Amendments to IAS 40 "Investment properties" (January 1, 2018)
- Amendments to IFRS 2 "Share-based Payment" (January 1, 2018)
- Amendment to IFRS 4 "Insurance Contracts" (January 1, 2018)
- Clarification to IFRS 15 "Revenue from Contracts with Customers" (January 1, 2018)
- Annual Improvements to IFRS: 2014 – 2016 Cycle (January 1, 2017 and January 1, 2018)
- IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration" (January 1, 2018)

The following explains the accounting rules that are relevant for the Consolidated Group. A material impact on the consolidated financial statements is not expected from any other new or revised standards, except for new or amended disclosures in the notes.

IFRS 9 "Financial Instruments"

This standard contains provisions for recognition, measurement and derecognition of financial instruments as well as for the accounting of hedging relationships. The standard replaces the previous accounting regulations for financial instruments under IAS 39 "Financial Instruments: Recognition and Measurement" and the previously released versions of IFRS 9.

IFRS 9 maintains the existing measurement categories of "amortised cost" and "at fair value" when measuring financial instruments. As the basis for classification and measurement, the standard refers to the criteria of cash flow characteristics and the business model used to manage financial instruments. IFRS 9 also introduces a new impairment model based on expected credit losses, whereas IAS 39 only allowed for the recognition of impairment for incurred losses. The standard also contains new provisions for the application of hedge accounting to better reflect an entity's risk management activities, especially with regard to the control of non-financial risks. The standard is to be applied retrospectively, except in the case of hedge accounting. The provision of comparable prior-year information is not required. The regulations for hedge accounting should generally be applied prospectively with only a few exceptions. Application of the new standard is mandatory for fiscal years beginning on or after January 1, 2018. The GRENKE Consolidated Group will apply IFRS 9 for the first time starting with the fiscal year beginning on January 1, 2018. The Consolidated Group does not expect a significant effect on its financial position or equity from applying the classification and measurement provisions of IFRS 9. Loans and receivables are held to collect the contractual cash flows whereby it is necessary to review whether contractual cash flows solely represent principal and interest payments on the outstanding amount (SPPI test). It is expected that loans and receivables will continue to be measured at amortised cost under IFRS 9. It is expected that equity instruments recorded as assets will be recognised directly in equity at fair value utilising the corresponding accounting option. All financial assets (derivatives) held and previously measured at fair value are expected to continue to be measured at fair value. The introduction of the new impairment model will have an impact on the consolidated financial statements because impairments are recognised at an earlier time. It is not planned to use the simplified approach for lease receivables. A slightly lower equity is expected, whereby a detailed analysis of all of the relevant reliable information will be necessary to determine the exact amount of the impact. In terms of hedge accounting, the GRENKE Consolidated Group assumes that all hedging transactions currently designated as effective hedging relationships fulfil all of the criteria for hedge accounting specified under IFRS 9. Therefore, this is unlikely to lead to any impact on the consolidated financial statements. The precise impact of the issues referred on the GRENKE Consolidated Group is currently being examined. The evaluation may still change however based on further detailed analysis or additional information provided to the Consolidated Group in the future.

IFRS 15 "Revenue from Contracts with Customers"

The standard introduces a five-step model for the recognition of revenue from contracts with customers. According to IFRS 15, revenue is recognised in the amount that is expected to be received as consideration for the transfer of goods or services to customers (the transaction price as defined by IFRS 15). Revenue is recognised when the customer assumes the economic control of the goods or services. IFRS 15 also contains reporting requirements. The new standard also requires the disclosure of a number of quantitative and qualitative items to give the users of the consolidated financial statements an understanding of the amount, nature, timing and uncertainty of revenue and cash flows arising from contracts with customers. The new standard will replace all existing provisions on revenue recognition under IFRS

(IAS 11 "Construction Contracts" and IAS 18 "Revenue"), as well as the related IFRS interpretations. The standard is to be applied to fiscal years beginning on or after January 1, 2018, either by means of a full retrospective application or a modified retrospective application. GRENKE is reviewing the allocation of the transaction price to various performance commitments. The GRENKE Consolidated Group is currently assessing the effects of the application of IFRS 15 on the Company's consolidated financial statements. Based on the preliminary analyses, GRENKE does not expect any material impact on the consolidated financial statements because, until now, the Consolidated Group generated only a low amount of income from long-term or multi-component contracts. With regard to the new rules on principal-agent relationships, an examination is underway which has not yet produced any sound results. It is not yet decided in what form first-time application will be presented (e.g., fully retrospective, transition method or application of exemption rule).

IFRS 16 "Leases"

In January 2016, the IASB published the new standard IFRS 16 "Leases". IFRS 16 replaces the previous IAS 17 standard on lease accounting and the interpretations IFRIC 4, SIC-15 and SIC-27. Application of the new standard is mandatory for fiscal years beginning on or after January 1, 2019. Early application is permitted only if IFRS 15 "Revenue from Contracts with Customers" is applied at the same time. The main changes introduced by IFRS 16 relate to lessee accounting. The differentiation between an operating lease and a finance lease at the lessee is eliminated. The lessee must recognise an asset for the right to use a lease object and a liability for the committed payment obligations for all leases ("right-of-use-approach"). Exemptions are provided for "low-value" leases and short-term leases of 12 months or less. For "low-value" leases, this exemption applies even if their aggregate amount was material. The simplification consists of an option to apply the recognition and disclosure requirements of IFRS 16.

The accounting policies for the lessor were left mostly unchanged and generally correspond to the previous provisions of IAS 17. As a result, the new standard is not expected to have a material impact on the GRENKE AG consolidated financial statements as a lessor. For leases where the GRENKE Consolidated Group is the lessee, the amended accounting principles will have an effect on the consolidated financial statements. One example is that usage rights will be capitalised for leased vehicles and properties. The effect of this, however, is not expected to be significant because the GRENKE Consolidated Group operates predominantly as a lessor.

3 General Accounting Policies

3.1 Composition of the Consolidated Group

The Consolidated Group consists of 33 consolidated entities (previous year: 32), of which five (previous year: five) are consolidated structured entities. The Consolidated Group holds either directly or indirectly 100% of the interest in 29 (previous year: 28) entities controlled by the Consolidated Five. Four of the consolidated entities (previous year: four) are held by third parties. Three of the structured entities concern parts of investees (silos). Furthermore, one (previous year: one) associated entity has been included in the consolidated financial statements using the equity method. Due to its minor importance, one entity was not included in the Consolidated Group’s scope of consolidation.

The consolidated financial statements contain all assets and liabilities as well as all expenses and income of GRENKE AG and of the Consolidated Group companies it controls (the "GRENKE Consolidated Group") after eliminating all material intra-group transactions. Uniform accounting principles are applied Consolidated Group-wide to the consolidated financial statements.

Associated entities are consolidated as of the date control is assumed by the GRENKE Consolidated Group and are no longer consolidated as of the date that control ceases.

Subsidiaries

Subsidiaries are entities in which the Consolidated Group holds either a direct or indirect interest and over which GRENKE AG exerts control. Control exists when GRENKE AG’s existing rights give it the ability to direct the relevant activities of the subsidiary (power of disposition) and, in doing so, is exposed to variable returns and there is a link between this power of disposition and the amount of return.

Structured Entities

Structured entities are entities in which voting or similar rights are not the dominant factors in determining control, for example, when voting rights only relate to administrative tasks and the relevant activities are governed by contractual agreements.

Associated Entities

Investments in associated entities are accounted for using the equity method. Associated entities are entities whose financial and business decisions can be significantly influenced by the Consolidated Group but the Consolidated Group cannot control or jointly control the entities’ decision-making processes. Significant influence typically exists when there is an interest in the associated entities’ voting rights of 20% to 50%.

Associated entities are accounted for in the consolidated financial statements using the equity method and initially recognised at acquisition cost. GRENKE AG’s share in the profit and loss of the associated entity following the acquisition is recognised in the consolidated income statement, and the share in any earnings-neutral changes in equity is directly recognised in the Consolidated Group’s equity.

Overview of the GRENKE Consolidated Group – Schedule of Shareholdings Pursuant to Section 313 (2) HGB

Subsidiaries and structured entities	Registered office	Interest in equity Dec. 31, 2016	Interest in equity Dec. 31, 2015
Germany			
GRENKE Service AG	Baden-Baden	100%	100%
Grenke Investitionen Verwaltungs Kommanditgesellschaft auf Aktien (84.4% directly; 15.6% indirectly via GRENKE Service AG)	Baden-Baden	100%	100%
GRENKE BANK AG	Baden-Baden	100%	100%
GRENKEFACTORING GmbH	Baden-Baden	100%	100%
International			
GRENKELEASING s.r.o.	Prague/Czech Republic	100%	100%
GRENKE ALQUILER S.L. 1)	Barcelona/Spain	100%	100%
Grenkefinance N.V.	Vianen/Netherlands	100%	100%
GRENKE RENT S.L. 1)	Madrid/ Spain	100%	100%
GRENKELEASING AG	Zurich/Switzerland	100%	100%
GRENKELEASING GmbH	Vienna/Austria	100%	100%
GRENKELEASING ApS	Herlev/Denmark	100%	100%
GRENKE LIMITED	Dublin/Ireland	100%	100%
GRENKE FINANCE Plc.	Dublin/Ireland	100%	100%
GRENKE LOCATION SAS	Schiltigheim/France	100%	100%
GRENKE Locazione S.r.l.	Milan/Italy	100%	100%
GRENKELEASING AB	Stockholm/Sweden	100%	100%
GRENKE LEASE Sprl 2)	Brussels/Belgium	100%	100%
Grenke Leasing Ltd.	Guildford/United Kingdom	100%	100%
GRENKELEASING Sp. z o.o.	Poznan/Poland	100%	100%
GRENKELEASING Magyarország Kft.	Budapest/Hungary	100%	100%
S.C. Grenke Renting S.R.L.	Bucharest/Romania	100%	100%
GRENKE RENTING S.A.	Lisbon/Portugal	100%	100%
GRENKELEASING s.r.o.	Bratislava/Slovakia	100%	100%
GRENKELEASING Oy	Vantaa/Finland	100%	100%
GRENKELOCATION SARL	Munsbach/Luxembourg	100%	100%
GRENKEFACTORING AG	Basel/Switzerland	100%	100%
GRENKELEASING d.o.o.	Ljubljana/Slovenia	100%	100%
GRENKE Kiralama Ltd. Sti.	Istanbul/Turkey	100%	--
FCT "GK"-COMPARTMENT "G2" 3)	Pantin/France	100%	100%
FCT "GK"-COMPARTMENT "G3"	Pantin/France	0%	0%
Opusalpha Purchaser II Limited	Dublin/Ireland	0%	0%
Kebnekaise Funding Limited	St. Helier/Jersey	0%	0%
CORAL PURCHASING Limited	St. Helier/Jersey	0%	0%
Associated entities			
Cash Payment Solution GmbH	Berlin	25.01%	25.01%

1) The legal form of the Spanish entities GRENKE RENT and GRENKE ALQUILER was changed from that of a S.A. (Sociedad Anónima) into a S.L. (Sociedad Limitada) in December 2016.

2) GRENKE AG holds a direct interest amounting to EUR 1,749k (of a total of EUR 1,750k) in GRENKE LEASE Sprl in Brussels/Belgium and an indirect interest amounting to EUR 1k through its German subsidiary, GRENKE Service AG.

3) GRENKE AG holds indirect interests through its Irish subsidiary GRENKE FINANCE Plc. and its German subsidiary GRENKE Service AG of 50% each.

For explanations on new additions in the fiscal year, please see Note 6.1.

3.2 Foreign Currency Translation

The separate financial statements of the foreign Consolidated Group companies are translated into euros using the functional currency concept. The functional currency of all foreign business enterprises is the respective national currency. The assets and liabilities of foreign subsidiaries whose functional currency is not the euro are translated into euros at the closing rate on the reporting date. The income and expenses of these subsidiaries are translated at the average rate for the fiscal year. The translation differences that result are recognised as a separate component of equity. When a foreign operation is sold, the cumulative amount recognised in equity for this foreign operation is released in profit and loss.

Transactions in a currency that differs from the functional currency of a subsidiary are first translated into the functional currency at the prevailing spot rate on the day of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated into the functional currency using the closing rate on each reporting date. The translation differences that result are recognised through profit and loss. Non-monetary items denominated in a foreign currency are carried at historical exchange rates.

Currency translation was based on the following key exchange rates:

	Closing rate on Dec. 31, 2016	Average rate 2016	Closing rate on Dec. 31, 2015	Average rate 2015
CHF	1.0739	1.0902	1.0835	1.0679
GBP	0.8562	0.8195	0.7340	0.7258

3.3 Leases

Lease agreements include agreements in which the lessor confers the lessee the right to use an asset for a set period of time in exchange for one payment or a series of payments. Lease contracts are classified either as operating leases or finance leases. Whether an agreement can be considered as a lease or containing a lease, depends on the economic substance of the agreement at the beginning of the contract based on the assessment of whether the fulfilment of the agreement depends on the use of a specific asset and if the agreement confers a right to use the asset.

The Consolidated Group as Lessor

Finance Leases

Under a finance lease, all of the significant risks and rewards of legal ownership are transferred from the lessor to the lessee.

Assets from finance leases are initially recognised in the statement of financial position as lease receivables at an amount equal to the net investment, i.e. the present value of the residual receivables of all lease contracts existing at the end of a fiscal year. Lease payments are divided into interest payments and repayments in such a manner that they reflect a constant periodic rate of return for the receivable. Initial direct costs incurred in connection with the conclusion of the contract, e.g. reseller commissions, are taken into consideration when calculating the net investment value. These initial direct costs are recognised as they occur in profit and loss under profit from new business. The profit from new business also includes income from lease down payments, which is the fee paid by the lessee for the use of the lease object during the period from the transfer of the object until the issuance of the lease acceptance letter.

Commissions that are not included in the net investment value of the lease receivable but recognised in profit and loss are also a component of the profit from new business.

Operating Leases

Operating leases are those leases where the GRENKE Consolidated Group does not transfer all the significant risks and rewards of ownership of the asset to the lessee. Initial direct costs incurred in the negotiation and conclusion of an operating lease are added to the carrying amount of the leased asset. These amounts are depreciated together over the term of the lease agreement until the residual value is reached. Contingent rents are recognised as income in the period in which they are generated. Operating lease assets are typically recorded in the statement of financial position as property, plant and equipment based on the type of asset (see Note 5.7).

After the original lease has expired, the contract may be extended, or a follow-on contract may be concluded. This leads to a reassessment of the lease. In cases where the criteria for an operating lease are met, the leased asset is recorded as property, plant and equipment as of the start of the extension period.

The Consolidated Group as Lessee

Finance Leases

Finance leases, in which all the significant risks and rewards incidental to owning the leased asset are transferred to the GRENKE Consolidated Group, lead to a capitalisation on the date of the lease's inception at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance expense and the retirement of the remaining lease liability so as to achieve a constant rate of interest on the remaining balance of the liability throughout the period. Finance expenses are immediately recognised in profit and loss. The capitalised leased assets are fully depreciated over the shorter of the lease term or its useful life if there is no reasonable certainty that the GRENKE Consolidated Group will obtain ownership by the end of the lease term.

Operating Leases

Lease payments under an operating lease are recognised as selling and administrative expenses in the income statement on a straight-line basis over the lease term. Contingent rents are recognised as an expense in the period they are incurred.

3.4 Measurement of Fair Values

The GRENKE Consolidated Group measures derivative financial instruments at their fair value. Additionally, the fair values of financial instruments measured at cost are presented in Note 7.4.

The fair value is the amount that would be obtained from the sale of an asset in an arm's length transaction between market participants at the valuation date as part of an orderly business transaction under current market conditions or the amount to be paid for the transfer of a liability. Fair value measurement assumes that the transaction leading to the sale of the asset or the transfer of the liability takes place on the asset's principal market or the principal market for the transfer of the liability or, if such a principal market is not available, on the most favourable market for the asset or the transfer of the liability.

Fair value is determined for a certain point in time and by applying those assumptions that representative market participants would take into consideration in pricing. With respect to pricing, it is assumed that market participants act in their own best economic interest.

When measuring the fair value of non-financial assets, the respective market participant's ability to generate an economic benefit is taken into account through the greatest and best use of the asset or through the sale of the asset to another market participant who finds the greatest and best use of the asset.

The GRENKE Consolidated Group uses observable market data, as far as possible, for determining the fair value of an asset or a liability. The fair values are assigned to different levels of the fair value hierarchy based on the input parameters used in the valuation methods:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: Measurement procedures in which all input factors that have a significant effect on the recognition of fair value are directly or indirectly observable
Level 3: Measurement procedures that use input factors that have a significant effect on the fair value recognised and are not based on observable market data

If the input factors used to determine the fair value of an asset or a liability can be assigned to different levels of the fair value hierarchy, then the fair value measurement is assigned entirely to the level in the fair value hierarchy that corresponds to the lowest input factor material for the overall measurement.

The GRENKE Consolidated Group recognises reclassifications between the different levels of the fair value hierarchy at the end of the reporting period in which the change has occurred. In the reporting year, there were no reclassifications among the three levels of the measurement hierarchy.

3.5 Financial Instruments

Categories of Financial Instruments

Financial instruments within the scope of IFRS 7 are classified in the following categories under the respective balance sheet item: cash and cash equivalents, financial instruments with positive fair value without hedging relationship, lease receivables (performing), lease receivables (non-performing), trade receivables, other financial assets, liabilities from the refinancing of lease receivables, liabilities from the deposit business, trade payables, bank liabilities, financial instruments with negative fair value without hedging relationship, financial instruments with negative fair value with hedging relationship.

Financial assets and liabilities measured at fair value refer exclusively to derivatives. Other financial assets and liabilities are measured at (amortised) cost, except for performing lease receivables.

Derivates

The derivative financial instruments (derivatives) used in the GRENKE Consolidated Group other than those used as hedging instruments in a hedging relationship under IAS 39, are classified as assets-held-for-trading and, therefore, must be recognised at their fair value in profit and loss both at their initial and subsequent measurement.

The assessment determining whether a contract contains an embedded derivative is made when the entity first becomes party to the contract. Embedded derivatives are separated from the basic contract if the latter is not measured at fair value through profit and loss and an analysis reveals that the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the basic contract.

Under hedge accounting, the GRENKE Consolidated Group only accounts for interest rate derivatives for hedging cash flows from the change in interest rates. These interest rate swap contracts are allocated to the variable cash flows of the underlying bonds and private placement transactions, as well as to the variable cash flows of the underlying ABCP and ABS refinancing transactions. The Consolidated Group recognises changes in the fair value of interest rate swaps in other comprehensive income (hedging reserve) while taking deferred taxes into consideration. The ineffectiveness is recognised in profit and loss. The underlying effectiveness is measured as per the end of each reporting period using the hypothetical derivative method. More information is provided in Note 7.3.

Financial Assets

According to IAS 39 and depending on their characteristics, financial assets are classified as financial assets to be measured at fair value through profit and loss, as loans and receivables, as held-to-maturity investments, or as available-for-sale financial assets. Receivables from finance leases are classified according to IAS 17. Please refer to Note 3.3.

Loans and Receivables Category

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. In the statement of financial position, the Consolidated Group’s loans and receivables are recorded under trade receivables, other financial assets, and under cash and cash equivalents.

Held-for-Sale Financial Assets Category

This category is comprised solely of investments in equity instruments and other interests that are measured at acquisition cost. Investments in equity instruments are measured at their fair value when this can be reliably measured. Unrealised gains and losses are recognised within other comprehensive income, net of taxes after taking deferred income tax expenses into account. If a fair value cannot be reliably determined, held-for-sale financial assets are measured at acquisition cost. This is the case for equity instruments for which there are no quoted prices on an active market and the essential parameters for calculating the fair value using valuation models cannot be determined with sufficient certainty.

Other Categories

At the end of the reporting period, the GRENKE Consolidated Group did not hold any financial assets in the category held-to-maturity financial instruments nor any assets measured at fair value through profit and loss, except for derivatives.

Recognising and Measuring Financial Assets

Financial assets are measured at fair value upon initial recognition. The carrying amounts of financial instruments, other than those designated as at fair value through profit and loss, also include transaction costs that are directly attributable to the acquisition of the assets.

Financial assets are allocated to the measurement categories following initial recognition. Reclassifications are made as per the end of a given fiscal year where permissible and appropriate. No reclassifications took place during the reporting periods. All customary purchases and sales of financial assets use settlement date accounting. Customary purchases or sales are transactions of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

After initial recognition, loans and receivables are measured at amortised cost using the effective interest method less any impairment.

Amortised cost includes all discounts and premiums paid upon acquisition and includes all fees that are an integral part of the effective interest rate and the transaction costs. Gains and losses are recognised in net profit when the loans and receivables are derecognised or impaired and through the amortisation process.

Impairment of Financial Assets

At the end of each reporting period, the GRENKE Consolidated Group assesses whether a financial asset or a group of financial assets are impaired. If there is an objective indication of an impairment on loans and receivables carried at amortised cost, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (with the exception of expected future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate determined upon initial recognition).

An objective indication of impairment is assumed if the debtor is experiencing significant financial difficulties, which are characterised by a default or delinquency in interest or principal payments. In addition, past payment behaviour, age structure, a substantial deterioration in credit standing, and a high probability of insolvency of the debtor are taken into consideration. The asset’s carrying amount is reduced using an allowance account. The impairment is recognised directly in profit and loss under settlement of claims and risk provision.

If the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is limited to amortised cost at the date of the reversal. The reversal is recognised in profit and loss under settlement of claims and risk provision.

Adequate flat-rate specific bad debt allowances are recognised in order to account for the credit risk from terminated lease contracts or contracts in arrears ("non-performing lease receivables"). The GRENKE Consolidated Group generally treats a lease as a "non-performing lease receivable" as soon as the second lease payment is missed. The lease is then usually terminated and the present value of the outstanding payments is claimed as damages. This amount is considered impaired. It is recorded under settlement of claims and risk provision in the income statement.

If there is objective evidence of an impairment of equity instruments in the category available-for-sale financial assets, then the amount of loss is the difference between the asset’s carrying amount and the present value of the expected future cash flows. After impairment, a write-up in value through profit and loss is no longer allowed.

Derecognition of Financial Assets

A financial asset (or a part of a financial asset or a part of a group of similar financial assets), is derecognised along with the related impairment when the requirements of IAS 39 "Financial Instruments: Recognition and Measurement" have been met. This is usually the case at the GRENKE Consolidated Group when assets are categorised as irrecoverable and all guarantees have been exhausted and liquidated.

When the GRENKE Consolidated Group transfers its contractual rights to receive the cash flows of an asset, but does not transfer or retain substantially all of the risks and rewards of the asset’s ownership, and also retains control of the transferred asset, then the GRENKE Consolidated Group continues to recognise the transferred asset to the extent of its continuing involvement.

Cash and Cash Equivalents

The cash and cash equivalents item in the consolidated statement of financial position comprises cash on hand and balances at banks and central banks with a maturity of less than three months. Cash and cash equivalents are measured at historic costs. Current account liabilities are deducted from cash and cash equivalents for the statement of cash flows.

Trade Receivables and Other Financial Assets

The GRENKE Consolidated Group initially recognises trade receivables and other financial assets at fair value and subsequently at amortised cost.

Financial Liabilities

Financial liabilities are initially recognised at fair value and net of transaction costs. In subsequent periods, they are recognised at amortised cost. The deducted transaction costs and any debt discounts are amortised over the lease term in profit and loss using the effective interest method.

Refinancing liabilities, which result from the sale of the lease receivables to the respective refinancing party, are recognised at the present value of the payments yet to be made to the refinancing party. The originally agreed interest rate is used as the discount rate for fixed interest loans. Upon repayment, regular payments are split into an interest portion and a principal component. The interest portion is recognised as an expense from interest on refinancing.

A financial guarantee is a contract that contains an obligation to effect payments by the guarantor that compensate the guarantee holder for a loss that arises because a given debtor fails to meet their payment obligations on time and according to the terms of the debt instrument. Liabilities from financial guarantee contracts are initially recognised at fair value. The fair value typically corresponds to the net present value of the consideration received in return for the provision of the financial guarantee. The liability’s subsequent measurement is based on the best estimate of the payment required to fulfil the current obligation as per the end of the reporting period or at the higher recognised value less accumulated amortisation.

Financial liabilities are derecognised if the contractual obligation underlying the liability is discharged or definitively expires. If an existing financial liability is exchanged for another financial liability of the same lender with substantially different terms, or if the terms of an existing liability are changed substantially, then such an exchange or change is treated as a derecognition of the original liability and recognition of a new liability. The difference between the corresponding carrying amounts is recognised in profit and loss.

Trade Payables

The GRENKE Consolidated Group initially recognises trade payables at fair value and subsequently at amortised cost.

3.6 Lease Assets for Sale

Lease assets for sale are recognised at the recoverable amount on the basis of historical figures. Appropriate measurement is ensured through the use of maturity bonds.

3.7 Property, Plant and Equipment

Property, plant and equipment are recognised at acquisition costs net of accumulated depreciation and impairment. Financing costs are capitalised when the necessary requirements are met. Property, plant and equipment are depreciated on a straight-line basis over their expected economic life. When property, plant and equipment are sold or retired, their cost and accumulated depreciation are derecognised and any gains or losses resulting from their disposal are recognised in the income statement as other operating income or expenses.

The depreciation rates are based on the following estimated economic lives:

Office buildings	33 years
Operating and office equipment	
IT hardware	3 years
Leasehold improvements	10 years
Other (office equipment)	3 – 20 years

The useful life and depreciation method for property, plant and equipment are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant, and equipment.

3.8 Goodwill

Goodwill resulting from acquisitions is initially measured at cost, which is the excess of the purchase price over the fair value of the identifiable assets, liabilities, and contingent liabilities of the acquired entity as per the date of acquisition.

Goodwill is not subject to scheduled amortisation. Following initial recognition, goodwill is tested for impairment at least once a year (a so-called "impairment test") to prove it is not impaired (the "impairment-only approach"). If there are indications that goodwill might be impaired, further tests must be conducted in addition to the mandatory annual impairment test. In subsequent periods, goodwill is recognised at cost less accumulated impairment.

The impairment test for goodwill is carried out on the cash-generating units. In the Leasing segment, these units are equivalent to the business activities in the respective regions (countries) and typically correspond to the legal entities. The cash-generating unit represents the lowest level at which goodwill is monitored internally. The recoverable amount is the higher of the fair value less selling costs and the value-in-use of the cash-generating unit. If one of these amounts exceeds the carrying amount, then it is not always necessary to determine both amounts. The recoverable amount of each of the cash-generating units was determined based on a value-in-use calculation using cash flow projections derived from four- or five-year financial plans approved by senior management.

3.9 Other Intangible Assets

Licences, Software

Purchased licences and software are capitalised at amortised cost. The acquisition costs include the purchase price plus directly attributable costs necessary to prepare the asset for its intended use. The acquisition costs are reduced by scheduled amortisation on a straight-line basis over their expected economic life that, according to individual assessment, is usually either three or five years.

Internally Generated Intangible Assets (Development Costs)

An intangible asset developed as part of a single project is only recognised if the GRENKE Consolidated Group is able to prove the technical feasibility of completing the intangible asset for internal use or sale and also prove the intention to complete the intangible asset and use or sell it. In addition, the asset's generation of future economic benefits, the availability of resources to complete the asset and the ability to measure the expenditure attributable to the intangible asset during its development, must exist.

Internally generated intangible assets are measured at cost. The cost comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended. The capitalised amounts are amortised on a straight-line basis over the period during which the project is expected to generate revenue or during which the software can probably be amortised. Based on the technical developments expected in the future, the economic life is assumed to be three to five years, depending on the development project.

Customer Relations/Dealer Network

Customer relations/dealer networks acquired in a business combination are measured at fair value upon initial recognition. Until 2011, the determination of the fair value of customer relations/dealer networks was based on a cost-oriented method. For business combinations from 2012, the determination of fair value is based on a net present value method by applying the residual value method. Customer relations and dealer networks are amortised on a straight-line basis over their economic life of five to seven years.

Non-Competitive Clauses

Non-competitive clauses contractually acquired in a business combination are recognised at fair value upon acquisition. The fair value is determined based on a net present value method, an excess profit method. Non-competitive clauses are subject to scheduled amortisation over the contractually agreed useful life which is typically one to two years.

3.10 Impairment of Non-Financial Assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is recognised in profit and loss as soon as the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and its value-in-use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal.

Internally generated intangible assets are tested once annually for impairment during the period in which they have not yet been used.

Value-in-use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and its disposal at the end of its useful life. The recoverable amount is estimated for individual assets or, if this is not possible, for the cash-generating unit to which the asset belongs.

The carrying amounts of goodwill are tested in order to assess the probability of continuing future benefits in accordance with the rules described in Note 3.8. Impairment is recognised in profit and loss if the recoverable amount is lower than the carrying amount of the respective cash-generating unit. If the reason for an impairment recorded in a prior period ceases to apply, an impairment loss must be reversed. Exceptions to this rule exist only for impairment of goodwill, the reversal of which is expressly prohibited.

3.11 Equity

According to IAS 32, the hybrid bond issued by GRENKE AG is to be fully classified as equity and reported under additional equity components. The principal amount of the bond was recognised under equity, net of a discount and premium, the cost of issuance and related deferred taxes. The deferred interest payments to shareholders net of income taxes will be directly recognised in equity. Upon maturity, interest payments will reduce equity.

3.12 Provisions

Provisions are carried at their probable settlement amount if a present obligation (legal or constructive) exists for the GRENKE Consolidated Group due to an event occurring before the end of the reporting period, and it is probable that the settlement of the obligation will lead to an outflow of resources embodying economic benefits, and if a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

3.13 Pensions and Other Post-Employment Benefits

Defined benefit plans relate to benefits following the end of employment and are based on direct benefit commitments for which the amount of the benefit is determined and dependent on factors such as age, remuneration, and time employed. The provision recognised for defined benefit plans in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period, less the fair value of the plan assets. Current and past service costs for benefits following the end of employment are recorded under staff costs. Interest expenses resulting from defined benefit obligations and interest income on plan assets are recorded as net interest expenses under other interest income. Past service costs resulting from plan adjustments are directly recognised in profit and loss.

The present value of the defined benefit obligation is calculated annually by an independent actuarial expert using the projected unit credit method of discounting the forecasted future cash outflows using the interest rate of industrial bonds of excellent credit standing. The industrial bonds are denominated in the currency of the payment amounts and their terms match those of the pension obligations. The calculation takes the current interest rate on the market into particular account and forecasts of future salary and pension increases in addition to biometric assumptions.

In accordance with Swiss law, the Consolidated Group has set up a defined benefit pension plan in Switzerland, which requires that contributions be made to separately administered funds. The obligation under the defined benefit plans is calculated using the projected unit credit method. In addition, GRENKE BANK AG has defined benefit pension plans for employees who had left the Company by the end of the reporting period. These benefits are not financed by funds. The underlying pension plans relate to both final salary and flat salary pension plans. Actuarial gains and losses, for example, due to adjustment of the discount rate, are recognised as other comprehensive income in equity.

The amount to be recognised as an asset or a liability under a defined benefit plan is the total of the present value of the defined benefit obligation less the fair value of the plan assets of out of which the obligations are to be settled directly.

Contributions to defined contribution plans are recognised as an expense when the employees have rendered services. These expenses include contributions to statutory pension schemes and especially direct insurance premiums. The GRENKE Consolidated Group primarily uses defined contribution plans.

3.14 Taxes

Actual Tax Assets and Tax Liabilities

Actual tax assets and liabilities for current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. They are calculated based on the tax rates and tax laws applicable as per the end of the reporting period.

Deferred Tax Liabilities and Deferred Tax Assets

Deferred tax liabilities are calculated using the liability method. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of an asset or a liability for financial reporting purposes and its tax base.

Deferred tax assets for previously non-utilised tax-loss carryforwards are recognised to the extent that it is probable that taxable profit will be available in the future to utilise these carryforwards. Deferred tax assets and liabilities are recognised on the basis of tax rates anticipated for the period in which the temporary differences will reverse. For this purpose, tax rates are used which are applicable as per the end of the reporting period or will be applicable in the near future.

Deferred taxes relating to items which are recognised directly in equity are recognised in shareholders' equity and not in the income statement. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the entity at the end of the reporting period expects to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are not discounted and are classified as non-current assets or liabilities in the consolidated statement of financial position.

Value-Added Tax

Revenue, expenses, and assets are recognised net of VAT, with the following exceptions:

- the VAT incurred on a purchase of assets or services is not recoverable from the tax authorities, in which case the VAT is recognised as part of the acquisition costs of the asset or as part of the expense item;
- stated receivables and liabilities include VAT.

The net VAT recoverable from or payable to the tax authorities is stated under other receivables or liabilities in the consolidated statement of financial position.

Trade Tax

In calculating the trade tax provisions for the German Consolidated Group companies GRENKE AG, Grenke Investitionen Verwaltungs KGaA, and GRENKEFACTORING GmbH, Section 19 GewStDV was applied since the 2008 assessment period and charges and similar amounts relating directly to financial services as defined by Section 1 (1a) sentence 2 of the KWG were not added. For GRENKE BANK AG, Section 19 GewStDV is applied in a relevant manner for banks.

3.15 Revenue Recognition

Income from Leasing when the Consolidated Group is the Lessor

Please see the information in Note 3.3.

Income from Service Business

In fiscal year 2016, the term "insurance business" was replaced with "service business" to provide more clarity and to allow the Consolidated Group to include other service activities in this item in the future. This change was made in order to provide reliable information with a higher relevance concerning the Company's earnings situation. Income from service business is comprised of income from insurance policies in the leasing business that must be concluded by the lessees via the GRENKE Consolidated Group if they do not insure the leased assets themselves. The GRENKE Consolidated Group acts between the lessee and the insurer.

Sale of Lease Assets

Revenue from the sale of lease assets is recognised when the relevant risks and rewards incidental to the ownership of the sold goods have been assigned to the customer. Usually, this occurs upon the delivery of the goods to the customer.

Revenue from the sale after the basic lease contract has ended or from lease contracts prematurely terminated by mutual agreement are recorded under gains from disposals and income from the sale due to defective lease agreements are recorded under settlement of claims and risk provision.

Interest Income

Interest and similar income from financing business (interest-like charges such as factoring fees) are recognised using the effective interest method.

3.16 Accounting Judgements

In applying the accounting policies, the senior management has made the following judgements that substantially influence the recognition and amounts in the financial statements. This does not include those decisions involving estimates.

Principles of Consolidation

When deciding whether to consolidate an entity, the following control factors, among others, are evaluated: the purpose and design of the entity; the relevant activities and how they are determined; whether the Consolidated Group's rights give the ability to direct the relevant activities; whether the Consolidated Group has risk exposure or rights to variable returns; whether the Consolidated Group can use its power to influence its returns.

When voting rights are decisive, the Consolidated Group is said to have control over an entity where it holds, directly or indirectly, more than half of the voting rights. This is the case unless there is evidence that another investor has the practical ability to unilaterally direct the relevant activities

In determining control, potential voting rights are also considered if they are deemed as substantial.

The Consolidated Group gives a similar assessment on the existence of control where it does not control the majority of the voting rights but has the practical ability to unilaterally direct the relevant activities. This may arise in circumstances where the size and dispersion of the voting rights of the shareholders give the Consolidated Group the power to direct the activities of the investee.

Moreover, when assessing whether to consolidate an entity, the possibility to control parts of the investee as a fictitious separate entity, a so-called "silo", is also considered.

If any facts or circumstances indicate changes in one or more of the control factors listed in IFRS 10, the Consolidated Group reviews the adequacy of previous decisions. The Consolidated Group reassesses the consolidation status on an annual basis. This includes changes in decision-making rights, changes in contractual arrangements, changes in the financing, ownership or capital structure, as well as changes triggered by an event which was anticipated in the original contractual agreements.

Consolidation of Structured Entities

For refinancing, the Consolidated Group uses various structured entities in the form of asset-backed commercial paper programmes ("ABCP programmes").

Control over the investee as a fictitious separate entity (so-called "silo" structure) was determined for the structured entities and ABCP programmes of CORAL PURCHASING Limited, Kebnekaise Funding Limited, and Opusalpha Purchaser Limited. Although this concerns so-called multi-sellers in which banks create securitisation vehicles to give customers access to specific portfolios of assets and provide market liquidity through the securitisation of the financial assets, this financing structure opens up a further form of refinancing for the Consolidated Group and thus provides it with the corresponding benefits. The GRENKE Consolidated Group does not have the power to exercise influence over the trust or the management of structured entities.

A significant activity over the term of these programmes is the selection of the receivables to be transferred. Furthermore, the initial selection of the receivables for each silo is defined according to specific selection criteria. In the event of a default of receivables, the settlement is managed by the GRENKE Consolidated Group. The opportunities and risks of the receivables of the silos remain in the GRENKE Consolidated Group. In the case of a revolving receivables purchases or sales, the variable returns may be affected in such a manner that the part of the investee is controlled as a fictitious separate entity.

At FCT GK 2, shares of the funds are held by two subsidiaries and are included in consolidation. The shares that are directly and indirectly held by the Consolidated Group are an indication for the inclusion in the scope of consolidation, but not the decisive criteria since all assumptions contained in IFRS 10 must be met for consolidation. FCT GK 2 is included in the scope of consolidation since all control factors are met and the Consolidated Group controls the entity by having the power to direct the relevant activities, having the right of variable returns, and also having the power to affect the amount of the returns. In contrast to FCT GK 2, there are no participating interests in the case of FCT GK 3 (all other parameters are identical). As with FCT GK 2, consolidation is based on control criteria and not ownership because voting rights or similar rights are not the decisive criteria for determining control. For both, FCT GK 2 and FCT GK 3, control is to be confirmed, which results in a consolidation requirement.

As per December 31, 2016 and December 31, 2015 and during both years, the GRENKE Consolidated Group did not hold any interests where it did not have the controlling influence. Therefore, there were no significant restrictions due to protection rights in favour of these shareholders.

Leasing

Based on an analysis of its contractual conditions, the Consolidated Group, as lessor, has come to the conclusion that during the basic lease term all relevant opportunities and risks related to the ownership of the lease assets are transferred to the lessee in almost all leases. Accordingly, these leases are shown entirely as finance leases.

3.17 Use of Assumptions and Estimates

In preparing the consolidated financial statements, assumptions and estimates have been made which have had an effect on the recognition and carrying amounts of assets, liabilities, income, expenses, and contingent liabilities.

Assumptions and estimates generally relate to the Group-wide uniform determination of the useful lives of assets; the measurement of provisions; the recoverability of receivables from terminated contracts; the recognition of realisable residual values of leased assets; and the determination of parameters for assessing the ongoing value of intangible assets and other non-financial assets as well as the probability of future tax benefits. In individual cases, the actual amounts may differ from the assumptions and estimates. Any changes will be recognised in profit and loss as and when better information is available.

The main uncertainties in relation to estimates and the associated disclosure requirements are in the following areas:

Assumptions Made in Impairment Tests for Measuring Goodwill

The cash flows used to measure goodwill under the discounted cash flow method are based on current business plans and internal plans for the next five years. This involved making assumptions as to future revenues and costs. Assumptions as to the future growth rates of the respective cash-generating unit were made on the basis of historical figures and historical income patterns that were projected into the future. These estimates and the underlying methodology may have a significant impact on the values determined. If significant assumptions differ from actual figures, impairments may have to be made in the future in profit and loss.

Determination of Impairments for Non-Performing Lease Receivables from Terminated Lease Contracts or Contracts in Arrears on the Basis of the Recoverability Rate

Lease receivables from terminated lease contracts or contracts in arrears are carried at amortised cost less appropriate bad debt allowances. The amount of bad debt allowances is determined using percentages and processing categories. Percentages are calculated using statistical methods. They are reviewed once a year for validity. Processing statuses are grouped together in processing categories that are set up with respect to risk.

The following table lists the processing categories in the leasing business:

Category	Description
0	Current contract not in arrears
1	Current contract in arrears
2	Terminated contract with serviced instalment agreement
3	Terminated contract (recently terminated or court order for payment applied for)
4	Legal action (pending or after objection to court payment order)
5	Order of attachment issued/Debt-collecting agency commissioned
6	Statement in lieu of oath (applied for or issued) and insolvency proceedings instituted but not completed
7	Derecognised
8	Being settled (not terminated)
9	Discharged (completely paid)

Impairment is assumed for categories 2 to 7 because the contracts have been terminated due to defaults in payment. The allowance rates range between 5% and 100%. In fiscal year 2016, there was an adjustment in the allowance rates. If the previous rates had been applied, allowances would have been EUR 5,862k lower. Estimated residual values are used to determine the present value of lease receivables. Non-guaranteed residual values are used to calculate lease receivables in accordance with the definition in IAS 17. Estimated residual values comprise anticipated sales proceeds and any revenues generated in a renewal period. They are determined on the basis of past experience and statistical methods.

Determination of Impairments for Factoring Receivables in Arrears

Factoring receivables in arrears are carried at amortised cost less appropriate bad debt allowances. The amount of bad debt allowances is determined using percentages and processing categories. Percentages are calculated using statistical methods. Processing statuses are grouped together in processing categories.

The following table lists the processing categories in the factoring business:

Category	Description
0	Receivables waiting to be processed
1	Receivables due and not due before debt collection measures
2	Receivables due in own debt collection
3	Receivables due being processed by third-party debt collection and/or with payment being serviced in instalments
4	Receivables due directly before or after applying for a default notice
5	Receivables due directly before or after action is filed
6	Receivables due of insolvent debtor
7	Derecognised receivables
8	Fully paid receivables

Impairment is assumed for categories 2 to 7 due to defaults in payment, whereby recoverability consistent with the processing category is assumed. The allowance rates range between 3% and 100%. The allowance rates are determined on the basis of past experience and statistical methods.

Determination of Impairments from the Lending Business (Risk Provision)

For receivables from the lending business, compliance with contractual agreements regarding interest payments and repaying the principal is continuously observed. In the case of defaults or overdrafts, suitable measures in the form of a structured delinquency procedure in written form are initiated at an early stage. If the delinquency procedure turns out to be unsuccessful or the customer becomes insolvent, then the unsecured portion of the receivable is fully impaired unless the customer can repay the outstanding portion of the loan in due time in coordination with the development bank.

Determination of Impairments for Trade Receivables

The Consolidated Group continuously assesses whether trade receivables are impaired. An objective indication for impairment is assumed in the case of default or delinquency of a debtor, indications for insolvency, and other features that indicate a significant reduction in the expected payment of the debtor. The amount of the allowance is based on the processing category in the leasing business and is determined on a case-by-case basis.

Use of Estimated Residual Values at the End of the Lease Term to Determine the Present Value of Lease Receivables

The residual values calculated at the end of the contract period are determined according to the expiration groups of the respective lease contract and, based on past experience, amount to between 3.0% and 21.0% of the acquisition cost for additions since January 1, 2016.

Proceeds are best estimated on the basis of statistical analyses. If the post-transaction recoverable amount is lower than expected (from sale and subsequent lease), the lease receivables are impaired. However, an increase in the recoverable amount remains unrecognised.

Recognition of Lease Assets for Sale at Estimated Residual Values

Lease assets for sale are measured on the basis of the average sales proceeds per age group realised in the past fiscal year in relation to the original cost. Lease assets for sale are measured at historical residual values, taking their actual saleability into account. As per the end of the reporting period, the residual values used amounted to between 2.7% and 15.0% of the historical cost (previous year: between 2.8% and 17.5%). If a sale is considered unlikely due to the condition of the asset, the asset is impaired in profit and loss.

Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities, not derived from information on active markets, are determined using a valuation model. The input parameters of these models are based on observable market data, if possible. If this is not possible, determining the fair values requires a certain degree of judgment. This judgment relates to input parameters such as liquidity risk, credit risk, and volatility. Changes regarding the assumptions of these input parameters may have an effect of the recognised fair value of financial instruments. If observable prices and parameters are available, they are to determine the fair value that in turn avoids the large scale use of estimates.

Recognition and Measurement of Deferred Taxes on Tax-loss Carryforwards

Deferred tax assets are recognised for all unused tax-loss carryforwards to the extent to which it is likely that taxable income will be available. This means that the tax-loss carryforwards may, in fact, be used. In determining the amount of the deferred tax assets, a considerable use of judgment is required on the part of the management with regard to the expected occurrence and level of the future taxable income, as well as to the future tax planning strategies.

Recognition and Measurement of Actual Tax Assets and Tax Liabilities

Due to the complexity of tax legislation, taxpayers and local tax authorities may have varying constructions and interpretations of the tax laws. This can lead to subsequent tax payments for prior fiscal years. Tax provisions are recognised in the event that the amounts stated in the tax declarations are not likely to be realised (uncertain tax items). The amount is determined from the best estimate of the anticipated tax payment. Tax receivables from uncertain tax items are recognised when it is probable and adequately ensured that they can be realised. The assumptions are based on the management's assessment of the amount of uncertain tax items.

4 Selected Notes to the Income Statement

4.1 Net Interest Income

4.1.1 Interest and Similar Income from Financing Business

Interest and similar income from financing business are divided as follows:

EURk	2016	2015
Interest income from the leasing business	253,892	232,758
Interest income from the refinancing of franchisees	1,355	1,122
Interest and similar income from the factoring business	4,432	4,221
Interest income from the bank's lending business	1,279	900
Total	**260,958**	**239,001**

4.1.2 Interest Expenses from Refinancing and Deposit Business

Interest expenses from the refinancing and deposit business are divided as follows:

EURk	2016	2015
Interest expenses from refinancing	38,754	42,977
Interest expenses from deposit business	4,414	4,820
Total	**43,168**	**47,797**

4.2 Settlement of Claims and Risk Provision

Individual lump-sum bad debt allowances are calculated on the basis of historical rates for the collectability of a receivable in conjunction with its categorisation ("percentage-of-receivables approach").

EURk	2016	2015
Allowance for losses in the leasing business	53,070	57,851
Retirement of the carrying amount of performing lease receivables due to premature damages	*51,718*	*51,350*
Income from settlement of claims	*49,504*	*49,719*
*Derecognition of and net addition to individual lump-sum bad debt allowances**	*50,693*	*56,064*
Expenses for del credere fees to franchiser	*163*	*156*
Allowance for losses on the bank's loans and advances*	1,822	1,347
Allowance for losses in factoring business	197	171
Profit	**55,089**	**59,369**

* The previous year included an adjustment of EUR 2,252k from the line item "allowance for losses on the bank's loans and advances" to "derecognition of and net addition to individual lump-sum bad debt allowances".

4.3 Profit from Service Business

The position "profit from insurance business" was changed to "profit from service business" (see Note 3.15). This position contains only income and expenses from the service business that are related to the processing of insurance policies in the context of leases. The income and expenses from the service business are comprised as follows:

EURk	2016	2015
Income from service business	62,503	53,940
Expenses from service business	3,224	3,139
Profit	**59,279**	**50,801**

4.4 Profit from New Business

Revenues from the new business of contracted leases are comprised as follows:

EURk	2016	2015
Recognition of new lease receivables	1,598,005	1,392,808
Share of revenues from leasing down payments	7,506	6,796
Revenues from processing fees	4,586	4,281
Revenues from special lease payments	5,435	4,228
Total	**1,615,532**	**1,408,113**

Expenses from the new business of contracted leases are comprised as follows:

EURk	2016	2015
Cost of newly acquired leased assets	1,531,318	1,334,652
Commissions paid to dealers	25,415	23,393
Total	**1,556,733**	**1,358,045**
Profit from new business	**58,799**	**50,068**

The cost of newly acquired leased assets represents all expenses related to the acquisition of the assets. The income from capitalising lease receivables includes the present value of firmly contracted lease payments and the present value of expected or fixed income from the post transaction. As almost all contracted lease contracts provide for full cost recovery, the total of expected cash flows is equal to or greater than their costs. Costs related to the conclusion of the contract are also capitalised.

Based on the calculations related to the lease agreement, the initial direct costs and the attributable share of revenues from leasing down payments are recorded in the profit from new business. Another component of profit from new business is commissions that are recognised in profit or loss and are not included in the net investment value of the lease receivables.

4.5 Gains (+) / Losses (–) from Disposals

EURk	2016	2015
Revenues from subsequent leases	37,134	35,522
Capital losses from disposal after end of the basic lease term	–43,799	–39,008
Capital gains from mutually agreed early termination of contracts	1,516	3,624
Depreciation of leased assets in the subsequent lease period	–836	–782
Profit	**–5,985**	**–644**

Revenues from subsequent leases relate to lease income recognised after the end of the basic term of the respective lease. These revenues are offset by depreciation and capital losses from the disposal of leased assets following the end of the basic lease term and capital gains from mutually agreed early dissolution of contracts.

However, the strong growth generated in earlier periods meant that expiring contracts resulted in increasingly higher expenses from the elimination of carrying amounts at the end of the basic lease period. The corresponding revenue from subsequent leases, in contrast, is only gradually recognised in profit and loss in later periods. The applicable IFRS standards do not allow for offsetting the relevant income and expenses in the same period so as to reflect the actual economic situation. This led to a negative result from gains/losses from disposals (loss from disposals) in the reporting year. Over the total period, the revenue still generated from subsequent leases is expected to result in a break-even result from disposals.

4.6 Staff Costs

The average number of staff during the fiscal year totalled 1,031 (previous year: 928), excluding the Board of Directors. Part-time staff is converted into full-time equivalents. Additionally, the Consolidated Group employed 28 trainees (previous year: 24).

EURk	2016	2015
Salaries	58,003	51,902
Social Security and other benefits	12,621	11,288
Total	**70,624**	**63,190**

A total net pension expense of EUR 557k (previous year: EUR 420k) for existing defined pension plans was recognised in staff costs in the fiscal year 2016. The staff costs also include EUR 746k (previous year: EUR 636k) for the employee participation programme of the French subsidiary.

4.7 Depreciation, Amortisation and Impairment

EURk	2016	2015
Other intangible assets	4,748	4,337
Operating and office equipment	3,854	2,237
Goodwill	0	703
Office buildings	694	692
Total	**9,296**	**7,969**

For impairment losses, please refer to Notes 5.7 through 5.9.

4.8 Selling and Administrative Expenses (not including Staff Costs)

Selling and administrative expenses are divided into the following categories:

EURk	2016	2015
Operating expenses	21,384	17,624
Consulting and audit fees	8,277	8,286
Distribution costs (without commissions)	9,389	8,635
Administrative expenses	8,453	8,273
Other taxes	4,439	5,010
IT project costs	6,207	4,630
Remuneration of the Supervisory committees	231	231
Total	**58,380**	**52,689**

IT project costs that are not capitalised as development costs occur as a result of the involvement of external expertise particularly for process optimisation projects of the central and standardised IT processes.

4.9 Other Operating Expenses

Other operating expenses are divided as follows:

EURk	2016	2015
Currency translation differences	2,490	2,239
Revenue deductions	613	772
Rental expenses	182	548
Capital losses from the disposal of operating and office equipment	94	117
Other items	637	730
Total	**4,016**	**4,406**

4.10 Other Operating Income

Other operating income is divided as follows:

EURk	2016	2015
Income from overdue payment fees	1,029	1,378
Franchise fees received	777	592
Commission income from banking business	514	415
Other fees charged to lessees	463	326
Rent and ancillary rental costs	294	622
Prior-period income	222	351
Revenues from the disposal of merchandise	381	241
Change in inventory	–374	239
Insurance compensation	76	73
Translation differences	30	181
Capital gains from the disposal of non-current assets	22	48
Other items	615	1,065
Total	**4,049**	**5,531**

4.11 Income Taxes

EURk	2016	2015
Current taxes	28,167	21,569
Corporate and trade taxes (Germany)	*6,528*	*–314*
Foreign income taxes	*21,639*	*21,883*
Deferred taxes	3,135	7,047
Germany	*1,654*	*3,943*
International	*1,481*	*3,104*
Total	**31,302**	**28,616**

Current taxes include tax expenses relating to previous years of EUR 5,471k (previous year: income of EUR 697k).

Reconciliation from the Average Effective Tax Rate to the Expected Tax Rate

The reconciliation of the expected applicable tax rate of GRENKE AG to the effective tax rate based on earnings before taxes (100%) is as follows:

Applicable tax rate	2016	2015
Trade tax	14.19%	14.19%
Corporate income tax	15.00%	15.00%
Solidarity surcharge (5.5% of corporate income tax)	0.83%	0.83%
Expected average tax rate GRENKE AG	**30.02%**	**30.02%**
Tax increases due to non-deductible expenses	0.38%	0.96%
Changes due to foreign taxes	–9.10%	–9.38%
Effective changes in tax rates	–1.01%	–0.27%
Utilisation of non-capitalised loss carryforwards	0.16%	0.00%
Back payments and tax refunds from previous years	4.07%	–0.64%
Tax increase due to non-tax-effective goodwill impairment	0.00%	0.19%
Other	–1.25%	5.25%
Effective average tax rate for the Consolidated Group	**23.27%**	**26.14%**

4.12 Earnings per Share

The calculation of both diluted and basic earnings per share is based on the net profit attributable to shareholders of GRENKE AG of EUR 101,463k (previous year: EUR 80,074k). There was no dilutive effect in either fiscal year 2016 or the previous year. Earnings per share amounted EUR 6.87 for the year under review (previous year: EUR 5.43).

Number	2016	2015
Shares outstanding at beginning of period	14,754,199	14,754,199
Average number of shares outstanding at end of period	14,764,042	14,754,199
Shares outstanding at end of period	14,771,034	14,754,199

4.13 Other Comprehensive Income

The reclassification of realised gains and losses before taxes in profit and loss are as follows:

EURk	2016	2015
Gains (losses) from interest rate contracts arising in the current period	197	28
Reclassification adjustments to the income statement	–72	–46
Income from hedge relationships	**125**	**–18**

5 Selected Notes to the Statement of Financial Position

5.1 Financial Instruments with Positive Fair Value

Financial instruments with positive fair value were comprised solely of derivatives without hedging relationship. There were no hedging derivatives as defined by IAS 39 that had a positive fair value.

EURk	Dec. 31, 2016	Dec. 31, 2015
Fair value of interest rate swaps	97	0
Foreign currency forwards	3,620	277
Total	**3,717**	**277**

For a discussion of interest rate and currency derivatives, please refer to Note 7.3.

5.2 Cash and Cash Equivalents

EURk	Dec. 31, 2016	Dec. 31, 2015
Bank balances	64,439	119,044
Balances at central banks	92,441	67,398
Cash in hand	16	11
Total	**156,896**	**186,453**

For the statement of cash flows, cash and cash equivalents are divided as follows:

EURk	Dec. 31, 2016	Dec. 31, 2015
Cash and cash equivalents as per the statement of financial position	156,896	186,453
Less current account liabilities	131	875
Cash and cash equivalents as per the statement of cash flows	**156,765**	**185,578**

5.3 Lease Receivables

EURk	Dec. 31, 2016	Dec. 31, 2015
Outstanding minimum lease payments	3,225,519	2,820,782
+ non-guaranteed residual values	381,596	338,757
Gross investment	**3,607,115**	**3,159,539**
– unrealised (outstanding) finance income	431,207	400,879
Net investment	**3,175,908**	**2,758,660**
– Present value of non-guaranteed residual values	296,579	258,496
Present value of minimum lease payments	**2,879,329**	**2,500,164**

EURk	Less than 1 year	1 to 5 years	More than 5 years
Total gross investment	**1,259,083**	**2,323,039**	**24,993**
Total gross investment (previous year)	1,105,633	2,031,168	22,738
Present value of outstanding minimum lease payments	**949,044**	**1,912,148**	**18,137**
Present value of outstanding minimum lease payments (previous year)	823,686	1,660,212	16,266

The reconciliation of gross investment only contains current contracts as per the end of the reporting period. The following adjustments must be made in order to reconcile the net investment with the carrying amount of lease receivables disclosed in the statement of financial position:

EURk	Dec. 31, 2016	Dec. 31, 2015
Changes in lease receivables from current contracts (performing lease receivables)		
Balance at beginning of period	**2,758,660**	**2,354,439**
+ Change during the period	417,248	404,221
Lease receivables (current + non-current) from current contracts at end of period	**3,175,908**	**2,758,660**
Changes in lease receivables from terminated contracts/contracts in arrears (non-performing lease receivables)		
Gross receivables at beginning of period	**221,847**	**223,257**
+ Additions to gross receivables during the period	50,444	49,984
– Disposals of gross receivables during the period	48,343	51,394
Gross receivables at end of period	**223,948**	**221,847**
Impairment at beginning of period	**126,335**	**121,598**
+ Additions of accumulated impairment during the period	41,924	46,319
– Disposals of accumulated impairment during the period*	38,513	41,582
Impairments at end of period	**129,746**	**126,335**
Carrying amount of non-performing lease receivables at beginning of period	**95,512**	**101,659**
Carrying amount of non-performing lease receivables at end of period	**94,202**	**95,512**
Lease receivables (carrying amount, current and non-current) at beginning of period	**2,854,172**	**2,456,098**
Lease receivables (carrying amount, current and non-current) at end of period	**3,270,110**	**2,854,172**

* Item contains exchange rate differences in the amount of EUR –1,260k (previous year: EUR 924k).

EURk	Present value of minimum lease payments	Present value of residual values	Other receivables from lessees	Carrying amount
2015				
Current lease receivables	823,686	85,162	95,512	1,004,360
Non-current lease receivables	1,676,478	173,334	0	1,849,812
Total (2015)	**2,500,164**	**258,496**	**95,512**	**2,854,172**
2016				
Current lease receivables	949,044	97,754	94,202	1,141,000
Non-current lease receivables	1,930,285	198,825	0	2,129,110
Total (2016)	**2,879,329**	**296,579**	**94,202**	**3,270,110**

Receivables from terminated contracts and contracts in arrears are included in current lease receivables.

The following table lists non-performing receivables with the number of days past due:

				past due as per the reporting date in the following time bands				
Lease receivables EURm	**Net carrying amount**	**thereof past due as per the reporting date**	**Allowances for receivables as per the reporting date**	**< 90 days**	**Between 91 days and 180 days**	**Between 181 days and 360 days**	**Between 1 and 5 years**	**> 5 years**
As per Dec. 31, 2015								
Not impaired	22.3	22.3	0.0	20.4	0.8	0.6	0.5	0.0
Impaired	73.2	199.5	126.3	15.0	13.8	25.3	105.4	40.0
Total	**95.5**	**221.8**	**126.3**	**35.4**	**14.6**	**25.9**	**105.9**	**40.0**
As per Dec. 31, 2016								
Not impaired	24.0	24.0	0.0	21.9	1.1	0.4	0.6	0.0
Impaired	73.6	199.9	129.7	16.3	13.1	25.6	109.3	35.6
Total	**97.6**	**223.9**	**129.7**	**38.2**	**14.2**	**26.0**	**109.9**	**35.6**

There were no indications that performing lease receivables were impaired as per the end of the reporting period.

As per the reporting date, lease receivables that were neither impaired nor past due amounted to EUR 3,176 million (previous year: EUR 2,759 million)

The maximum credit risk, without taking into account collateral, credit assessment systems, and other tools is limited to the carrying amount of the receivables.

As per December 31, 2016, there were no indications that financial assets (in particular lease receivables) that are neither impaired nor past due will be defaulted upon. Thanks to effective risk management and a highly diversified contract and lessee portfolio, the lease receivables have a particularly diversified risk structure with regard to credit risk. In the majority of cases (95%), the GRENKE Consolidated Group remains the legal owner of the leased assets, which are used as collateral for the lease receivables. There are also a low amount of bank guarantees (EUR 9.3 million) as well as guarantees and warranties from third parties for 5% of the lease receivables based on carrying amount.

The following table shows changes in allowances for current and non-current receivables:

EURm	**Dec. 31, 2016**	**Dec. 31, 2015**
Allowances at the beginning of the fiscal year	**126.3**	**121.6**
Addition to specific bad debt allowance	41.9	45.4
Utilisation of specific bad debt allowance	30.7	34.2
Reversal of specific bad debt allowance	6.5	7.4
Currency translation differences	–1.3	0.9
Allowances at the end of the fiscal year	**129.7**	**126.3**

The interest income resulting from the addition of accrued interest on the allowance expenses amounted to EUR 339k (previous year: EUR 882k) and is reported under settlement of claims and risk provision.

5.4 Other Financial Assets

EURk	Dec. 31, 2016	Dec. 31, 2015
Other current financial assets		
Instalments collected before end of month	1,261	908
ABCP-related loans	17,160	10,857
Receivables from franchisees (refinancing)	21,889	21,142
Receivables from factoring business	24,760	21,702
Receivables from refinancers	–120	38
Loans (bank)	19,458	8,990
Payments for acquisitions	8,500	0
Other	182	191
Total other current financial assets	**93,090**	**63,828**
Other non-current financial assets		
ABCP-related loans	23,280	12,687
Loans (bank)	37,123	25,522
Receivables from franchisees (refinancing)	9,959	8,852
Other investments	3,262	0
Other	19	134
Total other non-current financial assets	**73,643**	**47,195**
Total financial assets	**166,733**	**111,023**

The ABCP-related loans mainly include liquidity reserves, which under the respective agreements must be granted to the sponsor of the programme as collateral for the refinancing volumes. These loans are based on the refinancing volume and the origin of the receivables refinanced through the structured entities. The interest income generated in this context is offset against the interest expense from refinancing liabilities.

Receivables from franchisees include receivables resulting from the refinancing of leases concluded by franchise operators. As collateral for loan receivables or in forfaiting agreements, the franchisees have assigned both the title to the leased assets and the claim to lease receivables. Accordingly, interest income generated in this context of EUR 1,355k (previous year: EUR 1,122k) (see also Note 4.1.1) is reported as interest income within the net interest income. Refinancing granted in foreign currencies is translated using the closing rate.

At the end of the reporting period, the receivables from the lending business of GRENKE BANK AG that relates to the bank’s legacy business amounted to EUR 173k (previous year: EUR 976k). In addition, receivables from the lending business of EUR 42,488k (previous year: EUR 30,264k) include receivables from granting business start-up loans in the amount of EUR 56,581k (previous year: EUR 34,512k), receivables from granting project financing in the amount of EUR 316k (previous year: EUR 83k) and receivables from granting a microcredit in the amount of EUR 8,994k (previous year: EUR 3,189k). Interest income is recognised as such under net interest income.

Current financial assets contain an advance payment of EUR 8,500k for shares in Europa Leasing GmbH. The other investments under non-current financial assets contain the interest in Finanzchef24 GmbH in the amount of EUR 3,000k.

Of the other financial assets, a total of EUR 12,160k (previous year: EUR 8,727k) were past due, of which EUR 6,473k (previous year: EUR 3,933k) were impaired. As per December 31, 2016, other financial assets in the amount of EUR 5,687k (previous year: EUR 4,794k) were past due but not impaired. The level of impairment is determined according to the procedures described in Note 3.17. In the past fiscal year, the impairment loss amounted to EUR 773k (previous year: EUR 451k).

The following table provides a breakdown of the other financial assets past due and the number of days past due:

				past due as per the reporting date in the following time bands				
Other financial assets EURk	**Net carrying amount**	**thereof past due as per the reporting date**	**Allowances for receivables as per the reporting date**	**< 90 days**	**Between 91 days and 180 days**	**Between 181 days and 360 days**	**Between 1 and 5 years**	**> 5 years**
As per Dec. 31, 2015								
Not impaired	4,794	4,794	0	4,759	31	4	0	0
Impaired	2,795	3,933	1,138	912	672	492	1,857	0
Total	**7,589**	**8,727**	**1,138**	**5,671**	**703**	**496**	**1,857**	**0**
As per Dec. 31, 2016								
Not impaired	5,687	5,687	0	5,548	74	59	6	0
Impaired	4,376	6,473	2,097	1,083	495	1,421	3,467	7
Total	**10,063**	**12,160**	**2,097**	**6,631**	**569**	**1,480**	**3,473**	**7**

In addition, financial assets of EUR 507k (previous year: EUR 1,416k) that were not past due were impaired by an amount of EUR 119k (previous year: EUR 470k), which results in a net carrying amount of EUR 388k (previous year: EUR 946k).

In addition, financial assets that were neither impaired nor past due amounted to EUR 156,282k (previous year: EUR 102,488k).

There are no indications of financial distress in terms of credit quality for financial assets that were not impaired or past due, and repayment is expected.

The maximum credit risk, without taking into account collateral, credit assessment systems and other tools are limited to the carrying amount of the other financial assets.

The following table provides an overview of changes in allowances for other financial assets:

EURk	**Dec. 31, 2016**	**Dec. 31, 2015**
Allowances at the beginning of the fiscal year	**1,607**	**1,315**
Addition to specific bad debt allowance	911	664
Utilisation of specific bad debt allowance	159	159
Reversal of specific bad debt allowance	138	213
Currency translation differences	–5	0
Allowances at the end of the fiscal year	**2,216**	**1,607**

5.5 Trade Receivables

Trade receivables of EUR 4,474k (previous year: EUR 4,272k) mainly relate to receivables from franchisees, resellers, and third parties resulting from the disposal of lease assets. An amount of EUR 2,733k (previous year: EUR 2,951k) of these receivables is overdue and EUR 1,893k (previous year: EUR 2,377k) of this amount is impaired. As per December 31, 2016, trade receivables of EUR 840k (previous year: EUR 574k) were overdue but not impaired. The level of impairment is determined by the procedures described in Note 3.17. In the past fiscal year, the impairment loss amounted to EUR 86k (previous year: EUR –118k).

The maximum credit risk without taking into account collateral, credit assessment systems and other tools are limited to the carrying amount of the trade receivables.

Trade receivables include other receivables from franchisees in the amount of EUR 1,144k (previous year: EUR 622k). The following table lists the trade receivables past due and the number of days past due:

				past due as per the reporting date in the following time bands				
Trade receivables EURk	**Net carrying amount**	**thereof past due as per the reporting date**	**Allowances for receivables as per the reporting date**	**< 90 days**	**Between 91 days and 180 days**	**Between 181 days and 360 days**	**Between 1 and 5 years**	**> 5 years**
As per Dec. 31, 2015								
Not impaired	574	574	0	574	0	0	0	0
Impaired	1,613	2,377	764	0	271	431	1,275	400
Total	**2,187**	**2,951**	**764**	**574**	**271**	**431**	**1,275**	**400**
As per Dec. 31, 2016								
Not impaired	840	840	0	840	0	0	0	0
Impaired	1,043	1,893	850	0	166	468	1,025	234
Total	**1,883**	**2,733**	**850**	**840**	**166**	**468**	**1,025**	**234**

In addition, trade receivables that were neither impaired nor past due amounted to EUR 2,591k (previous year: EUR 2,085k). There are no indications of financial distress in terms of credit quality for trade receivables that were not impaired or past due, and repayment is expected.

5.6 Other Current Assets

EURk	Dec. 31, 2016	Dec. 31, 2015
VAT receivables	164,984	134,852
Prepaid expenses	2,727	1,998
Prepayments	1,376	1,854
Merchandise	337	1,543
Amounts in transit	7,830	1,091
Insurance claims	485	377
Creditors with debit balances	267	337
Orders in progress	992	285
Current advances	231	275
Other items	1,062	1,176
Total	**180,291**	**143,788**

5.7 Property, Plant and Equipment

5.7.1 Overview of Fiscal Year 2016

EURk	Land and buildings	Assets under construction	Operating and office equipment	Lease assets from operating leases	Total
Acquisition costs Jan. 1, 2016	**23,877**	**0**	**27,276**	**18,266**	**69,419**
Currency translation differences	0	0	–193	–257	–450
Additions	43	0	5,584	12,552	18,179
Of which additions in the context of a business combination	*0*	*0*	*9*	*82*	*91*
Disposals	0	0	698	10,745	11,443
Reclassifications	0	0	0	0	0
Acquisition costs Dec. 31, 2016	**23,920**	**0**	**31,969**	**19,816**	**75,705**
Accumulated depreciation and impairment Jan. 1, 2016	**6,231**	**0**	**15,344**	**1,493**	**23,068**
Currency translation differences	0	0	–96	–19	–115
Additions to depreciation	694	0	3,854	836	5,384
Additions to impairment	0	0	0	0	0
Disposals of depreciation	0	0	263	738	1,001
Reclassifications	0	0	0	0	0
Accumulated depreciation and impairment Dec. 31, 2016	**6,925**	**0**	**18,839**	**1,572**	**27,336**
Net carrying amounts Dec. 31, 2016	**16,995**	**0**	**13,130**	**18,244**	**48,369**

5.7.2 Overview of Fiscal Year 2015

EURk	Land and buildings	Assets under construction	Operating and office equipment	Lease assets from operating leases	Total
Acquisition costs Jan. 1, 2015	**23,877**	**0**	**19,669**	**17,147**	**60,693**
Currency translation differences	0	0	145	98	243
Additions	0	0	7,739	11,309	19,048
Of which additions in the context of a business combination	*0*	*0*	*68*	*0*	*68*
Disposals	0	0	277	10,288	10,565
Reclassifications	0	0	0	0	0
Acquisition costs Dec. 31, 2015	**23,877**	**0**	**27,276**	**18,266**	**69,419**
Accumulated depreciation and impairment Jan. 1, 2015	**5,539**	**0**	**13,093**	**1,650**	**20,282**
Currency translation differences	0	0	79	13	92
Additions to depreciation	692	0	2,237	782	3,711
Additions to impairment	0	0	0	0	0
Disposals of depreciation	0	0	65	952	1,017
Reclassifications	0	0	0	0	0
Accumulated depreciation and impairment Dec. 31, 2015	**6,231**	**0**	**15,344**	**1,493**	**23,068**
Net carrying amounts Dec. 31, 2015	**17,646**	**0**	**11,932**	**16,773**	**46,351**

The operating leases are mainly lease contracts whose basic lease term have expired and may be terminated at any time. Depreciation on such lease assets from operating leases is shown in gains/losses from disposals (see Note 4.5).

5.8 Goodwill

5.8.1 Overview and Development

EURk	2016	2015
Acquisition cost		
As per Jan. 1	63,315	57,736
Foreign currency translation effects	–1,153	473
Acquisitions and adjustments to first-time consolidation	5,507	5,106
As per Dec. 31	**67,669**	**63,315**
Accumulated amortisation from impairment		
As per Jan. 1	1,154	451
Impairment loss of the fiscal year	0	703
As per Dec. 31	**1,154**	**1,154**
Carrying amounts		
As per Jan. 1	62,161	57,285
As per Dec. 31	**66,515**	**62,161**

For information on additions made in 2016, please refer to the explanations on the acquisition of the GC Leasing Ofis Donanimlari Kiralama Limited Sirketi., Istanbul/Turkey in Note 6.1.

The purchase price allocation for the purchase of GRENKELEASING d.o.o., Ljubljana/Slovenia (formerly GC Leasing d.o.o.), was finalised in the first quarter of 2016. There have been not changes to the preliminary fair values of the assets and liabilities.

For further information on the business combinations concluded in the previous year, please refer to the Notes to the consolidated financial statements as per December 31, 2015.

Carrying amounts of material goodwill relate to the following cash-generating units:

EURk	Dec. 31, 2016	Dec. 31, 2015
Grenke Renting S.A. (Lisbon) – Portugal	28,472	28,472
GRENKELEASING d.o.o. (Ljubljana) – Slovenia	5,106	5,106
GRENKE RENT S.L. (Madrid) – Spain	5,015	5,015
GRENKELEASING Sp. z o.o. (Poznan) – Poland	4,056	4,195
GRENKE Kiralama Ltd. Sti.(Istanbul) – Turkey*	4,771	--
GRENKEFACTORING AG (Basel) – Switzerland	4,225	4,188

* The goodwill resulting from the business combination of GRENKE Kiralama Ltd. Sti., Istanbul, Turkey (GC Leasing Ofis Donanimlari Kiralama Limited Sti.) in 2016 is still provisional as the purchase price allocation will only be finalised in 2017 (see Note 6.1). The goodwill is assigned to the cash-generating unit Turkey.

5.8.2 Goodwill Impairment Test

GRENKE AG tests goodwill for impairment once a year. The key parameters for determining the recoverable amount based on the value-in-use are the future expectations with regard to the development of new business and profitability.

The basic assumptions used in calculating the cash flows that may be generated by the respective entities are based on new business growth rates of the cash-generating units of up to 35% in the Leasing segment in individual regions and individual years. The discount factors, specific to countries, financial structure, and currencies, range between 3.2% and 10.1% (previous year: between 4.7% and 10.1%). These discount factors reflect the cost of capital after taxes.

Discount factors are calculated based on the "capital asset pricing model" (CAPM), taking into account a risk-free interest rate of 0.9% (previous year: 1.0%) and a beta factor of 0.76 (previous year: 0.77) for the cash-generating units in the Leasing and Banking segments. A beta factor of 0.66 (previous year: 0.70) was used for the cash-generating units in the Factoring segment. Cash flows after a five-year period were carried forward using a growth rate of 1.0% (previous year: 1.0%). Forecasts for the development of new business have proven to be stable in the past. Due to the particular business alignment of the Consolidated Group, the forecasting parameters available on the market are not suitable for providing forecasting quality, since they relate only to the entire leasing market, which is heavily influenced by the leasing of property, capital goods, and vehicles. Therefore, forecasts for the development of new business are based on the Company’s past experience.

For Portugal, one of our significant cash-generating units, the key assumptions used are a discount factor of 9.6% (previous year: 9.6%) and new business growth rates between 5.0% and 8.0% (previous year: between 5.4% and 8.0%) in single years. The perpetual growth rate is 1.0% (previous year: 1.0%). The key assumptions of the parameters used correspond to the approach mentioned above, which holds true for all cash-generating units.

5.8.3 Sensitivity of Assumptions

The fair value of a cash-generating unit, where the major value drivers are cash flows and the discount rate, is sensitive to changes in the discount rate. The discount rate is largely determined by the risk-free interest rate, a market risk premium, and a beta factor for systematic risk. Specific features with regard to countries, financial structure, and currencies were taken into consideration. These parameters are based on external sources of information. Therefore, fluctuations in the components stated above may affect the discount rate.

As part of the validation of the fair values determined for the cash-generating units, the major value drivers for each unit are reviewed annually. A sensitivity test was performed on discount rates and growth rates of new business that are the key determinants used in the discounted cash flow model.

The management is of the opinion that realistic changes to the assumptions used for implementing impairment tests within the Consolidated Group do not result in any additional impairment beyond the one mentioned above. The changes arising since the routine annual impairment test did not affect the parameters for the evaluation of the individual cash-generating units.

5.9 Other Intangible Assets

5.9.1 Overview of Fiscal Year 2016

EURk	Development costs	Software licences	Customer relations/ non-competitive clauses	Total
Acquisition costs as per Jan. 1, 2016	**4,771**	**7,429**	**16,633**	**28,833**
Currency translation differences	0	–17	–200	–217
Additions	4,850	1,364	0	6,214
Disposals	0	56	0	56
Additions through business combinations	0	0	1,639	1,639
Reclassifications	0	0	0	0
Acquisition costs as per Dec. 31, 2016	**9,621**	**8,720**	**18,072**	**36,413**
Accumulated amortisation as per Jan. 1, 2016	**583**	**3,970**	**7,109**	**11,662**
Currency translation differences	0	–5	–13	–18
Additions	681	1,960	2,107	4,748
Disposals	0	48	0	48
Reclassifications	0	0	0	0
Accumulated amortisation as per Dec. 31, 2016	**1,264**	**5,877**	**9,203**	**16,344**
Net carrying amounts Dec. 31, 2016	**8,357**	**2,843**	**8,869**	**20,069**

5.9.2 Overview of Fiscal Year 2015

EURk	Development costs	Software licences	Customer relations/ non-competitive clauses	Total
Acquisition costs as per Jan. 1, 2015	**2,536**	**5,988**	**13,073**	**21,597**
Currency translation differences	0	17	–15	2
Additions	2,235	1,424	0	3,659
Disposals	0	0	0	0
Additions through business combinations	0	0	3,575	3,575
Reclassifications	0	0	0	0
Acquisition costs as per Dec. 31, 2015	**4,771**	**7,429**	**16,633**	**28,833**
Accumulated amortisation as per Jan. 1, 2015	**238**	**2,690**	**4,405**	**7,333**
Currency translation differences	0	2	–10	–8
Additions	345	1,278	2,714	4,337
Disposals	0	0	0	0
Reclassifications	0	0	0	0
Accumulated amortisation as per Dec. 31, 2015	**583**	**3,970**	**7,109**	**11,662**
Net carrying amounts Dec. 31, 2015	**4,188**	**3,459**	**9,524**	**17,171**

Additions in "customer relations/non-competitive clauses" resulted exclusively from business combinations in the reporting year and the previous years.

5.10 Deferred Tax Assets and Deferred Tax Liabilities

Deferred tax assets and liabilities are divided as follows:

	Statement of financial position		Income statement	
EURk	**Dec. 31, 2016**	**Dec. 31, 2015**	**2016**	**2015**
Deferred tax assets				
Tax-loss carryforwards	9,671	9,871	211	187
Remeasurement of lease receivables	1,128	689	–253	246
Remeasurement of liabilities	6,085	6,134	156	3,915
Pensions	1,043	953	–149	0
Others	0	2	174	–647
Total	**17,927**	**17,649**	**139**	**3,701**
Deferred tax liabilities				
Remeasurement of lease receivables	34,158	43,687	–9,421	4,858
Intangible assets	4,270	3,275	867	1,196
Remeasurement of liabilities	13,078	939	12,268	–3,124
Others	8	718	–718	416
Total	**51,514**	**48,619**	**2,996**	**3,346**
Deferred tax expense/(income)			**3,135**	**7,047**
Deferred tax liabilities, net	**33,587**	**30,970**		
Reported in the statement of financial position as follows:				
Deferred tax assets	**17,927**	**17,649**		
Deferred tax liabilities	**51,514**	**48,619**		

Deferred tax assets of EUR 2k were directly released in equity and deferred tax liabilities of EUR 8k were recognised in the fiscal year (previous year: EUR 0k). These resulted from the cash flow hedge reserve directly recognised in equity. Additionally, deferred tax assets of EUR 58k (previous year: EUR 138k) were recognised in connection with the direct recognition of actuarial losses.

5.11 Current and Non-Current Financial Liabilities

5.11.1 Overview

The GRENKE Consolidated Group’s financial liabilities consist of current and non-current financial liabilities.

EURk	Dec. 31, 2016	Dec. 31, 2015
Financial liabilities		
Current financial liabilities		
Asset-based	226,792	192,971
Senior unsecured	*724,236*	*637,002*
Committed development loans	*45,604*	*28,814*
Liabilities from deposit business	228,125	200,997
Other bank liabilities	2,824	1,960
thereof current account liabilities	*131*	*875*
Total current financial liabilities	**1,227,581**	**1,061,744**

EURk	Dec. 31, 2016	Dec. 31, 2015
Non-current financial liabilities		
Asset-based	431,595	341,503
Senior unsecured	*1,194,928*	*1,075,495*
Committed development loans	*78,988*	*65,295*
Liabilities from deposit business	188,963	148,307
Total non-current financial liabilities	**1,894,474**	**1,630,600**
Total financial liabilities	**3,122,055**	**2,692,344**

The GRENKE Consolidated Group has adjusted or renamed the structure of its financial liabilities to the structure reported to bond and capital market participants to ensure a uniform presentation. Asset-based financial liabilities include liabilities in connection with ABCP programmes and sales of receivables to external credit institutions. Senior unsecured financial liabilities include primary unsecured debt instruments.

The liabilities from the deposit business comprise deposits by customers of GRENKE BANK AG. The total current liabilities totalling EUR 228,125k (previous year: EUR 200,997k) include an amount of EUR 34,520k as per the end of the reporting period (previous year: EUR 19,154k) of deposits payable on demand. For the other deposits consisting of restricted and fixed-term deposits, corresponding terms have been arranged.

Bank liabilities are the liabilities arising from the use operating credit lines (overdraft borrowings). As per the reporting date, these credit lines were utilised in the amount of EUR 131k (previous year: EUR 875k).

Current and non-current lease receivables totalling EUR 656,136k (previous year: EUR 471,440k) have been assigned to the refinancing institutions to secure the liabilities stemming from the refinancing of the leasing business. Each item of collateral is assigned until the outstanding receivable on the lease has been settled. The collateral is then reassigned. The items of collateral for assigned receivables are marked so that they may be clearly distinguished from non-assigned receivables.

As per December 31, 2016, the volume of non-current financial liabilities with remaining maturities of one to five years or more was as follows:

EURk		Total amount	1 to 5 years	More than 5 years	Secured amount
Type of liability					
	2016	**431,595**	**430,611**	**984**	**377,490**
Asset-based	(previous year)	341,503	340,533	970	268,470
	2016	**1,194,928**	**987,928**	**207,000**	**0**
Senior unsecured	(previous year)	1,075,495	1,075,495	**0**	**0**
	2016	**78,988**	**72,585**	**6,403**	**78,988**
Committed development loans	(previous year)	65,295	59,605	5,690	65,295
	2016	**188,963**	**188,963**	**0**	**0**
Liabilities from deposit business	(previous year)	148,307	148,307	0	0

Further details on the refinancing sources and the main categories of financial liabilities are discussed below.

5.11.2 Asset-Based Financial Liabilities

Structured Entities

The following consolidated structured entities were in place as per the balance sheet date: Opusalpha Purchaser II Limited (HeLaBa), Kebnekaise Funding Limited (SEB AB), CORAL PURCHASING Limited (DZ Bank), FCT "GK"-COMPARTMENT "G 2" (UniCredit), FCT "GK"-COMPARTMENT "G 3" (HSBC). In the following, the consolidated structured entities initiated as asset-backed commercial paper (ABCP) programmes are further explained.

ABCP Programmes

The GRENKE Consolidated Group has several asset-backed commercial paper programmes (ABCPs) with a total volume of EUR 735,000k as per the end of the reporting period (previous year: EUR 593,333k).

EURk	Dec. 31, 2016	Dec. 31, 2015
Programme volume	735,000	593,333
Utilisation	624,610	442,373
Carrying amount	531,544	377,331
thereof current	*154,054*	*108,861*
thereof non-current	*377,490*	*268,470*

The ABCP programmes grant GRENKE FINANCE Plc. and Grenke Investitionen Verwaltungs KGaA the right to refinance or to sell receivables to the respective programmes for a certain period of time. The cap on the purchase volume is determined by the volume of the programme, which is normally backed by the organising bank in the form of a liquidity commitment in the corresponding amount. The carrying amount is calculated using the effective interest method, whereby incurred transaction costs are amortised over the term of the underlying refinancing package.

The structured entities are refinanced by issuing commercial papers, usually with a term of one month, on a revolving basis. The interest on the commercial papers is based on one-month Euribor. This is a floating interest rate. The structured entities manage the interest rate risk (fixed-rate lease receivables versus floating-rate refinancing) with interest rate hedges (interest rate caps and interest rate swaps).

There is no currency risk in ABCP refinancing as only euro transactions and euro-based leases are involved.

The maturities of the individual ABCP programmes can be found in the following table:

ABCP programme	Sponsoring bank	Maturity until
Opusalpha Purchaser II Limited	HeLaBa	March 2018
Kebnekaise Funding Limited	SEB AB	November 2017
CORAL PURCHASING Limited	DZ-Bank	August 2017
FCT "GK"-COMPARTMENT "G 2"	UniCredit	April 2019
FCT "GK"-COMPARTMENT "G 3"	HSBC	June 2019

Sales of Receivables Agreements

Sales of receivables agreements are currently in place with Stadtsparkasse Baden-Baden Gaggenau, Sparkasse Karlsruhe, UBS AG in Switzerland, the Commerzbank subsidiary mBank S.A., and DZ Bank AG's branch in Poland, as well as with Norddeutsche Landesbank for receivables in the UK.

All such agreements represent refinancing of lease contracts with matching maturities. For this purpose, individual lease contracts with similar maturities are grouped together and lease receivables are purchased for the same maturities.

This ensures that at any time in the future the interest charge for the GRENKE Consolidated Group is fixed and known for the entire term of the contract. Therefore, there is no interest risk. For this reason, derivatives are not used for this type of financing. There were no indications of a possible derecognition of any items because the credit risk remained with the GRENKE Consolidated Group. The present value of the obligations as per the end of the reporting period was EUR 126,843k (previous year: EUR 157,143k) and coincides with the value of the receivables sold (less reductions et cetera).

	Dec. 31, 2016	**Dec. 31, 2015**
Programme volume in local currency		
EURk	*25,000*	*25,000*
GBPk	*80,000*	*80,000*
PLNk	*60,000*	*60,000*
CHFk	*50,000*	*50,000*
Programme volume in EURk	178,602	194,218
Utilisation in EURk	126,843	157,143
Carrying amount in EURk	126,843	157,143
thereof current	*72,739*	*84,110*
thereof non-current	*54,104*	*73,033*

5.11.3 Senior Unsecured Financial Liabilities

The following table provides an overview of the carrying amounts of the individual refinancing instruments:

EURk	**Dec. 31, 2016**	**Dec. 31, 2015**
Bonds	1,209,998	1,044,164
thereof current	*266,374*	*234,135*
thereof non-current	*943,624*	*810,029*
Promissory notes	392,941	361,515
thereof current	*151,387*	*99,684*
thereof non-current	*241,554*	*261,831*
Commercial paper	201,000	196,000
Revolving credit facility	73,937	65,557
thereof current	*64,187*	*61,922*
thereof non-current	*9,750*	*3,635*
Money market trading	31,692	34,892
Accrued interest	9,596	10,369

The following table lists the refinancing volumes of the individual instruments:

	Dec. 31, 2016	Dec. 31, 2015
Bonds EURk	1,500,000	1,250,000
Commercial paper EURk	500,000	250,000
Revolving credit facility EURk	150,000	125,000
Revolving credit facility PLNk	50,000	25,000
Revolving credit facility CHFk	10,000	0
Money market trading EURk	45,000	35,000

Bonds

Unless stated otherwise, three-month Euribor is the reference interest rate for floating-rate bonds, debentures, and private placements. The discounts and the initial expenses directly corresponding to the transaction concerned are reversed over the term of the debt securities using the effective interest method. All debentures are bullet debt securities and are subject to constant rating. If the Standard & Poor's rating were to be downgraded, the agreed interest rate would be contractually adjusted (increased). As a downgrade is not expected, no hedge has been concluded to date.

Debt Issuance Programme

The relevant terms and conditions for bonds using the debt issuance programme are as follows:

Description	Term from	Term to	Interest coupon percent p. a.	Carrying amount Dec. 31, 2016 EURk	Carrying amount, Dec. 31, 2015 EURk	Nominal amount Dec. 31, 2016 EURk	Nominal amount Dec. 31, 2015 EURk
Euro bond	30/05/2012	30/03/2016	3.75	0	99,968	0	100,000
Euro bond	23/10/2012	24/10/2016	3.125	0	124,546	0	125,000
Euro bond	13/12/2012	13/12/2019	3.75	40,756	40,675	41,000	41,000
Euro bond	07/06/2013	07/06/2017	2.00	99,964	99,876	100,000	100,000
Euro bond	09/12/2013	10/12/2018	2.25	124,808	124,708	125,000	125,000
Euro bond	21/02/2014	21/08/2018	1.90	29,962	29,939	30,000	30,000
Euro bond	04/03/2014	04/03/2019	2.17	29,968	29,953	30,000	30,000
Euro bond	17/04/2014	17/10/2017	1.625	124,913	124,808	125,000	125,000
Euro bond	06/05/2014	06/05/2016	1.37	0	9,996	0	10,000
Euro bond	27/06/2014	27/08/2018	1.50	9,990	9,984	10,000	10,000
Euro bond	07/07/2014	07/07/2017	1.25	9,995	9,984	10,000	10,000
Euro bond	26/11/2014	27/05/2019	1.50	124,835	124,767	125,000	125,000
Euro bond	06/03/2015	06/03/2018	0.884	23,986	23,974	24,000	24,000
Euro bond	26/03/2015	26/03/2019	0.80	29,961	29,943	30,000	30,000
Euro bond	27/04/2015	27/04/2020	0.73	29,840	29,792	30,000	30,000
Euro bond	21/05/2015	27/04/2020	0.93	19,902	19,873	20,000	20,000
Euro bond	07/09/2015	07/04/2017	Euribor + 0.60	12,198	12,192	12,200	12,200
Euro bond	04/12/2015	05/10/2020	1.375	119,545	99,186	120,000	100,000
Euro bond	21/01/2016	21/01/2026	2.616	25,883	0	26,000	0
Euro bond	09/03/2016	09/04/2021	1.5	144,986	0	145,000	0
Euro bond	15/06/2016	15/06/2021	0.875	19,897	0	20,000	0
Euro bond	17/06/2016	15/09/2017	0.02	19,964	0	20,000	0
Euro bond	08/08/2016	08/08/2018	0.44	19,984	0	20,000	0
Euro bond	29/11/2016	02/02/2022	1.125	148,661	0	150,000	0

In 2016, a total of six new bonds with an aggregated nominal volume of EUR 361,000k were issued. The terms and conditions are listed in the table above. In addition, the bonds from December 4, 2015 and March 9, 2016 were increased by EUR 20,000k each. The terms and conditions are listed in the table below.

	Term		Interest coupon	Discount	Nominal amount Dec. 31, 2016	Nominal amount Dec. 31, 2015
Description	from	to	percent p. a.	EURk	EURk	EURk
Euro bond	01/09/2016	05/10/2020	0.738	482	20,000	0
Euro bond	28/10/2016	09/04/2021	0.784	583	20,000	0

Three bonds with an aggregated nominal volume of EUR 235,000k were redeemed as scheduled in the past fiscal year.

Promissory Notes (PN)

The terms and conditions for the promissory notes denominated in euro are listed in the following table:

	Term		Interest coupon	Carrying amount, Dec. 31, 2016	Carrying amount, Dec. 31, 2015	Nominal amount Dec. 31, 2016	Nominal amount Dec. 31, 2015
Description	from	to	percent p. a.	EURk	EURk	EURk	EURk
EUR-PN	06/12/2010	30/06/2020	4.8500	3,000	3,750	3,000	3,750
EUR-PN	06/12/2010	30/06/2020	4.8500	3,000	3,750	3,000	3,750
EUR-PN	24/10/2011	15/12/2016	Euribor + 3.00	0	29,964	0	30,000
EUR-PN	16/11/2011	16/11/2016	5.0000	0	14,991	0	15,000
EUR-PN	21/12/2012	21/12/2020	2.80	4,000	5,000	4,000	5,000
EUR-PN	01/03/2013	01/03/2016	2.15	0	3,333	0	3,333
EUR-PN	28/03/2013	05/01/2017	2.41	20,000	20,000	20,000	20,000
EUR-PN	01/08/2013	01/08/2016	2.41	0	4,998	0	5,000
EUR-PN	31/01/2014	31/01/2019	2.25	9,992	9,988	10,000	10,000
EUR-PN	18/07/2014	18/07/2017	1.43	25,000	25,000	25,000	25,000
EUR-PN	28/07/2014	28/07/2019	1.644	9,985	9,979	10,000	10,000
EUR-PN	12/08/2014	12/08/2017	1.20	5,000	10,000	5,000	10,000
EUR-PN	26/08/2014	26/08/2017	1.26	15,000	15,000	15,000	15,000
EUR-PN	04/09/2014	04/09/2017	1.18	10,000	10,000	10,000	10,000
EUR-PN	18/09/2014	18/09/2017	1.05	7,000	14,000	7,000	14,000
EUR-PN	12/12/2014	12/12/2017	1.21	25,000	25,000	25,000	25,000
EUR-PN	26/03/2015	26/03/2019	0.84	7,500	10,000	7,500	10,000
EUR-PN	15/06/2015	15/06/2018	0.87	10,000	10,000	10,000	10,000
EUR-PN	09/07/2015	09/07/2018	0.835	10,000	10,000	10,000	10,000
EUR-PN	21/07/2015	21/07/2018	0.95	10,000	10,000	10,000	10,000
EUR-PN	23/07/2015	23/07/2018	0.91	25,000	25,000	25,000	25,000
EUR-PN	25/07/2015	25/07/2018	0.90	10,000	10,000	10,000	10,000
EUR-PN	17/08/2015	17/08/2018	0.811	13,989	13,982	14,000	14,000
EUR-PN	04/09/2015	04/09/2018	0.78	20,000	20,000	20,000	20,000
EUR-PN	22/12/2015	22/12/2017	0.75	4,997	4,993	5,000	5,000
EUR-PN	29/03/2016	29/03/2019	0.78	9,989	0	10,000	0
EUR-PN	29/04/2016	29/04/2026	2.35	10,964	0	11,000	0

Description	Term from	Term to	Interest coupon percent p. a.	Carrying amount, Dec. 31, 2016 EURk	Carrying amount, Dec. 31, 2015 EURk	Nominal amount Dec. 31, 2016 EURk	Nominal amount Dec. 31, 2015 EURk
EUR-PN	30/05/2016	01/04/2019	0.72	20,000	0	20,000	0
EUR-PN	05/09/2016	05/09/2019	0.52	9,987	0	10,000	0
EUR-PN	20/10/2016	20/10/2026	1.702	19,922	0	20,000	0
EUR-PN	26/11/2016	26/11/2019	0.714	10,000	0	10,000	0

The terms and conditions for the promissory notes denominated in Swiss francs are listed in the following table:

Description	Term from	Term to	Interest coupon percent p. a.	Carrying amount Dec. 31, 2016 EURk	Carrying amount Dec. 31, 2015 EURk	Nominal amount Dec. 31, 2016 CHFk	Nominal amount Dec. 31, 2015 CHFk
CHF-PN	03/02/2014	10/01/2017	1.59	372	1,840	400	2,000
CHF-PN	29/09/2014	29/09/2017	0.82	9,299	9,199	10,000	10,000
CHF-PN	29/01/2015	10/01/2018	0.01	3,725	6,645	4,000	7,200
CHF-PN	30/03/2015	10/01/2018	0.35	3,725	6,645	4,000	7,200
CHF-PN	12/06/2015	12/06/2018	0.43	9,312	9,229	10,000	10,000
CHF-PN	29/09/2015	29/09/2017	0.234	9,312	9,229	10,000	10,000
CHF-PN	24/05/2016	10/04/2019	0.34	8,445	0	9,090	0
CHF-PN	27/07/2016	10/07/2019	0.29	9,201	0	9,900	0
CHF-PN	24/10/2016	10/10/2019	0.45	10,225	0	11,000	0

All repayments were on schedule in the past fiscal year.

Commercial Paper

The GRENKE Consolidated Group has the option of issuing commercial paper of up to a total volume of EUR 500,000k with a term of between 1 and 364 days. As per December 31, 2016, EUR 201,000k (previous year: EUR 196,000k) of the commercial paper programme was utilised.

Revolving Credit Facility

The GRENKE Consolidated Group has the ability at any time to borrow short-term funds with maturities of usually one month through eight revolving credit facilities with a total volume of EUR 150,000k (part of which may be utilised in Swiss francs) and CHF 10,000k available to GRENKE FINANCE Plc., Dublin/Ireland with a portion also available to GRENKE AG, Zurich, Switzerland.

These facilities are available with Deutsche Bank AG, DZ Bank AG, HSBC Trinkaus & Burkhardt AG, Norddeutsche Landesbank, SEB AG and Commerzbank AG.

As per December 31, 2016, the revolving credit facilities were utilised in the amount of EUR 50,000k and CHF 16,500k (previous year: EUR 55,000k and CHF 7,500k).

There is also an additional facility with SEB AG that gives GRENKLEASING Sp. Z.o.o. access to short-term funds at any time in a minimum amount of PLN 1,000k and a fixed maturity of three years. As per December 31, 2016, the volume utilised based on this facility amounted to PLN 43,000k (previous year: PLN 15,500k).

Money Market Trading

GRENKE FINANCE Plc., Dublin/Ireland and GRENKELEASING AG, Zurich, Switzerland have a non-committed money market facility totalling EUR 35,000k from Bayerische Landesbank.

A further money market trading facility with a volume of EUR 10,000k is available at Commerzbank AG.

As per December 31, 2016, these credit lines were utilised in an amount of EUR 28,000k and CHF 2,700k (previous year: EUR 31,200k and CHF 4,000k).

5.11.4 Committed Development Loans

There are various collaborations in the form of global loans between the GRENKE AG, GRENKE BANK AG and the development banks Kreditanstalt für Wiederaufbau, NRW Bank, Thüringer Aufbaubank, Investitionsbank Berlin, LfA Förderbank Bayern and the ILB Investitionsbank des Landes Brandenburg. These collaborations facilitate the integration of public funding in the lease financing. The funding is available to regional investment projects of commercial enterprises and self-employed professionals with an annual turnover of up to EUR 500 million.

In addition, GRENKE BANK AG in cooperation with KfW offers a nationwide "ERP Startgeld" programme providing funds to business start-ups and young companies. KfW provides both low-interest loans and an 80% exemption from liability for the firm’s bank. The maximum loan amount is limited to EUR 100k each.

In addition to the development loan programme "KFW Startgeld" of KfW-Mittelstandsbank, GRENKE BANK AG also offers the business development programme "Startfinanzierung 80" in the state of Baden-Württemberg. The programme targets start-ups and is jointly offered by L-BANK and Bürgschaftsbank Baden-Württemberg. The low-interest loans are offered by L-Bank and the Bürgschaftsbank provides an 80% default guarantee.

The following table shows the carrying amounts of the development loans utilised at the individual development banks.

	Dec. 31, 2016	Dec. 31, 2015
Description	**EURk**	**EURk**
NRW Bank	51,771	28,518
Thüringer Aufbaubank	11,068	7,520
Investitionsbank Berlin	3,040	5,473
LfA Förderbank Bayern	14,712	20,787
Investitionsbank des Landes Brandenburg	3,691	2,163
KfW	37,932	27,365
Landeskreditbank Baden-Württemberg – Förderbank	2,310	2,170
Accrued interest	68	113

5.12 Financial Instruments with Negative Fair Value

EURk	Dec. 31, 2016	Dec. 31, 2015
Derivatives with hedging relationship	0	39
Derivatives without hedging relationship	2,976	3,401
Total	**2,976**	**3,440**

The GRENKE Consolidated Group reported negative fair values in connection with forward exchange contracts (see Note 7.3.4) for the current fiscal year.

The forward exchange contracts are reported as derivatives without hedging relationship as defined by IAS 39. As per December 31, 2016, forward exchange contracts on the British pound, Canadian dollar, Swiss franc, Hungarian forint, Danish krone, Swedish krona, Czech koruna, Singapore dollar and United Arab Emirates dirham had a negative fair value of EUR 2,976k (previous year: negative fair value of EUR 3,401k on the British pound, Swiss franc, and partially Hungarian forint, Danish krone, Polish zloty, Canadian dollar, Turkish lira and United Arab Emirates dirham). Please refer to Note 7.3.4 for more detailed information.

5.13 Other Current Liabilities

EURk	Dec. 31, 2016	Dec. 31, 2015
Value-added tax	9,395	7,856
Debtors with credit	5,732	5,962
Contributions to Social Security	457	542
Liabilities for salaries	573	440
Wages/church tax	393	309
Liabilities from other taxes	204	253
Liabilities from security deposits	233	179
Liabilities from car leases	301	174

EURk	Dec. 31, 2016	Dec. 31, 2015
Deferred income	219	131
Settlement accounts with companies	137	24
Customer payments being settled	1,352	930
Other	1,400	494
Total	**20,396**	**17,294**

5.14 Provisions

The liability risks of GRENKE BANK AG are shown under this item. In addition, this item also includes liabilities from onerous contracts due to the relocation of GRENKE BANK AG from Hamburg to Baden-Baden. The composition is as follows:

EURk	Jan. 1	Addition	Utilisation	Reversals	Dec. 31
2016					
Liability risks	1,657	0	11	0	1,646
Onerous contracts	107	0	77	30	0
Total	**1,764**	**0**	**88**	**30**	**1,646**

EURk	Jan. 1	Addition	Utilisation	Reversals	Dec. 31
2015					
Liability risks	1,764	0	107	0	1,657
Onerous contracts	183	48	124	0	107
Total	**1,947**	**48**	**231**	**0**	**1,764**

Of the liability risks, an amount of EUR 796k (previous year: EUR 796k) relates to contingent liabilities recognised as part of the purchase price allocation for the acquisition of GRENKE BANK AG. Initially, this amount was EUR 1,429k. As an outflow of funds can occur at any time, this contingent liability was classified as a current liability. Reimbursement options from third parties do not exist. Of the total provisions, an amount of EUR 0k (previous year: EUR 0k) is non-current.

5.15 Deferred Liabilities

The item deferred liability consists of the following:

EURk	Dec. 31, 2016	Dec. 31, 2015
Consulting services	3,844	2,837
Personnel services	4,106	3,903
Other costs	8,026	5,926
Total	**15,976**	**12,666**

All deferred liabilities are of current nature.

5.16 Pensions

5.16.1 Defined Benefit Plans

The provisions for pensions relate to the compulsory funded retirement benefit plans (endowment insurance) with supplementary payment obligation on the part of the employers in Switzerland for GRENKELEASING AG, Zurich and GRENKEFACTORING AG, Basel, and the pension obligations from final salary and flat salary pension plans in Germany for GRENKE BANK AG, Baden-Baden. A total net pension expense of EUR 557k (previous year: EUR 420k) was recognised for existing pension plans in the 2016 fiscal year.

The weighted-average duration of the predominant share of the pension obligations amounts to 13.4 years (previous year: 13.5 years).

Pensions in Germany

The pension obligations of GRENKE BANK AG relate to direct and vesting pension commitments that were made in the past predominantly for former employees.

The pension provisions were calculated on the basis of the following parameters:

	Dec. 31, 2016	Dec. 31, 2015
Discount rate	1.50%	2.00%
Estimated future pension increases	1.70%	1.70%
Mortality tables applied	Mortality Tables 2005 G*	Mortality Tables 2005 G*

* from Prof Klaus Heubeck

The development of the defined benefit obligations is as follows:

EURk	2016	2015
Change in defined benefit obligations		
Defined benefit obligations at beginning of period	**1,726**	**1,819**
Interest expense	34	31
Current service cost	0	0
Benefits paid	–56	–60
Actuarial gains and losses recognised in equity	110	–64
Past service costs resulting from amendments to plan	0	0
Defined benefit obligations at end of period	**1,814**	**1,726**

Pensions in Switzerland

Under the Swiss Occupational Pension Act (BVG), every employer must grant pensions to entitled employees after termination of employment. The GRENKE Consolidated Group maintains defined benefit plans (capital based) in Switzerland that are managed by trusts and independent of the Company.

The external expert opinion is based on the following actuarial assumptions:

	Dec. 31, 2016	Dec. 31, 2015
Discount rate	0.35%	0.70%
Estimated future salary increases	2.50%	2.50%
Estimated future pension increases*	0.00%	0.00%
Mortality tables applied	BVG 2015	BVG 2010

* Assuming a 0% pension increase as no pensions are currently being paid to employees.

On the basis of the actuarial report, the following income and expenses were recognised:

EURk	Dec. 31, 2016	Dec. 31, 2015
Service cost	557	420
Interest expense	38	60
Income from interest on plan assets	22	37

The assets are invested in a collective insurance agreement with a life insurance company by way of a follow-up agreement with the BVG pension fund (Professional Pension Act). The fund manages the assets and is responsible for the investment strategy within statutory regulations. The investments consist exclusively of direct entitlements against the pension fund.

As per December 31, 2016, the provision for pensions recognised under non-current liabilities amounted to EUR 2,967k (previous year: EUR 2,519k). This amount comprises the present value of the obligations (DBO) of EUR 6,399k (previous year: EUR 5,297k), the fair value of the plan assets of EUR 3,432k (previous year: EUR 2,778k) and an actuarial loss of EUR 95k (previous year: EUR 687k).

EURk	2016	2015
Change in defined benefit obligations		
Defined benefit obligations at beginning of period	**5,297**	**3,268**
Interest expense	38	60
Current service cost	557	420
Benefits paid	311	455
Contributions of the participants of the plan	184	162
Actuarial gains and losses recognised in equity	–50	588
Currency translation differences from foreign plans	62	343
Defined benefit obligations at end of period	**6,399**	**5,297**

EURk	2016	2015
Change in plan assets		
Fair value of plan assets at beginning of period	**2,778**	**1,808**
Expected return	22	37
Employer’s contribution	249	222
Contributions of the participants of the plan	184	162
Benefits paid	311	455
Actuarial losses/gains recognised in equity	–145	–99
Currency translation differences from foreign plans	33	192
Fair value of plan assets at end of period	**3,432**	**2,778**

The actuarial gains and losses included in the revaluation of defined benefit obligations result from the following:

EURk	Dec. 31, 2016	Dec. 31, 2015
Changes in demographic assumptions	–513	0
Changes in financial assumptions	436	598
Experience-based gains/losses	27	–10
Total	**–50**	**588**

Experience-based adjustments to plan assets amounted to EUR –145k (previous year: EUR –100k). Employer contributions for the subsequent period are estimated at EUR 256k.

Sensitivity Analysis

A change in the assumption above applied to determine the DBO as per December 31, 2016 and December 31, 2015 would increase or decrease the DBO as follows:

Dec. 31, 2016	Change of assumptions in percentage points	Increase of assumptions Change of DBO in EURk	Decrease of assumptions Change of DBO in EURk
Discount rate	0.25	–411	444
Future salary increases	0.25	76	–74
Future pension increases	0.25	56	–54

Dec. 31, 2015	Change of assumptions in percentage points	Increase of assumptions Change of DBO in EURk	Decrease of assumptions Change of DBO in EURk
Discount rate	0.25	–343	257
Future salary increases	0.25	64	–62
Future pension increases	0.25	52	–50

In calculating the sensitivity of the DBO for the relevant actuarial assumptions, the same method was used as for the calculation of the recognised obligation.

5.16.2 Defined Contribution Plans

Defined contribution plans represent an additional part of the occupational pension schemes within the Consolidated Group. Under defined contribution plans, the entity pays contributions to public or private pension insurance schemes voluntarily or on the basis of statutory or contractual requirements. The entity does not have any other benefit obligations beyond the contribution payments.

The current contribution payments are recognised as an expense for the respective year. In 2016, they amounted to a total of EUR 1,931k (previous year: EUR 1,744k) and had mainly comprised contributions to the statutory pension insurance scheme in Germany. Going forward, the level of expenses primarily depends on the development of the underlying pension insurance schemes.

5.17 Equity

5.17.1 Share Capital

For the details of changes in equity, please see the consolidated statement of changes in equity.

On May 3, 2016, the GRENKE AG Annual General Meeting resolved to carry out a capital increase in the context of the Scrip Dividend. The share capital was thereby increased by EUR 21,519.00 to EUR 18,880,774.47 through partial use of the authorised capital, which was resolved upon by the Annual General Meeting on May 12, 2015. A total of 16,835 new registered no-par value shares were issued. The new shares carry the same dividend rights as the existing shares.

The fully paid-in subscribed capital of GRENKE AG amounts to EUR 18,881k (previous year: EUR 18,859k). It is divided into 14,771,034 no-par value shares (previous year: 14,754,199). All shares have the same rights and obligations. Each share is entitled to one vote at the Annual General Meeting and accounts for the shareholders' proportionate share in the Company's net profit.

5.17.2 Authorised Capital

On May 12, 2015, with the consent of the Supervisory Board, the Annual General Meeting adopted a resolution authorising the Board of Directors to increase the Company's share capital by up to a nominal amount of EUR 1,885k. This can be undertaken by issuing new shares in return for cash and/or contribution in kind until May 11, 2020 (Authorised Capital).

5.17.3 Contingent Capital

By resolution of May 3, 2016, the existing authorisation to issue bonds with options and/or convertible bonds and the existing contingent capital (Contingent Capital 2011) in accordance with the resolution of the Annual General Meeting of May 10, 2011 was cancelled.

5.17.4 Authorisation to Acquire Treasury Shares in accordance with Section 71 (1) No. 8 AktG

The Company was given authorisation to acquire treasury shares until May 11, 2020 by the Annual General Meeting of May 12, 2015 in accordance with Section 71 (1) No. 8 AktG. The Company has not made use of this authorisation.

5.17.5 Participation Certificate Capital and Hybrid Bonds

By resolution of the Annual General Meeting on May 3, 2016, and the consent of the Supervisory Board, the Board of Directors was authorised to issue participation certificates and other hybrid financial instruments on one or several occasions of up to a total value of EUR 150,000k for a term of five years until May 2, 2021. The authorisation to issue participation certificates was cancelled on May 10, 2011.

5.17.6 Unappropriated Surplus

On May 3, 2016, the Annual General Meeting adopted the resolution on the appropriation of GRENKE AG's unappropriated surplus for fiscal year 2015 in the amount of EUR 22,692,046.85. The Annual General Meeting approved the proposal of the Board of Directors and the Supervisory Board, resolving to appropriate the unappropriated surplus as follows:

2015 unappropriated surplus	EUR 22,692,046.85
Distribution of a dividend of EUR 1.50 per share for a total of 14,754,199 registered shares	EUR 22,131,298.50
Profit carryforward (to new account)	EUR 560,748.35

The dividend was paid to the shareholders of GRENKE AG on May 30, 2016.

The Board of Directors will propose to the Annual General Meeting the distribution of a dividend of EUR 1.75 per share for the 2016 fiscal year. This distribution has not been recognised as a liability as per December 31, 2016.

5.17.7 Reserves

The capital reserves of EUR 119,043k (previous year: EUR 116,491k) mainly result from the IPO of GRENKE AG in April 2000 and the capital increases in February 2013, May 2014 and May 2016.

In addition to GRENKE AG's retained earnings, retained earnings of the Consolidated Group also comprise the retained earnings and profits of the consolidated subsidiaries and consolidated structured entities.

5.17.8 Additional Equity Components

On July 22, 2015, GRENKE AG issued an unsecured, subordinated hybrid bond (non-cumulative, indefinite Additional Tier 1, known as an AT1 bond or hybrid capital) with a nominal volume of EUR 30,000k and an interest coupon of 8.25%. The interest payment for this bond is based on its nominal value and is fixed for the period from the day of issuance until the first possible early redemption day. Thereafter, the interest rate will be redetermined for periods of five years each. Interest payments can be omitted in full or in part, are non-cumulative and at the issuer's discretion. Interest payments in subsequent years will not be increased to make up for any omitted interest payments occurring in prior years. The bonds have an indefinite maturity and are therefore not subject to a limited term. The bonds can be called by GRENKE AG with effect as per the first possible early redemption day and thereafter at five-year intervals. The bonds can also be called prematurely, subject to certain conditions. The investors' right to call the bonds is excluded. The bonds are subject to the terms and conditions detailed in the respective prospectus, which include – among others – that GRENKE AG can call the bonds only in full and not in part, to the extent certain regulatory or tax reasons exist. Any premature call of the bonds requires the approval of the relevant regulatory authority.

The redemption and nominal amount of the bonds may be reduced upon the occurrence of a triggering event. If GRENKE Consolidated Group's Tier 1 core capital ratio falls below 5.125%, this would constitute such a triggering event. In the case of a triggering event, the bonds may be appreciated, subject to certain conditions.

On March 31, 2016, GRENKE AG made a scheduled payment to the hybrid capital holders in the amount of EUR 1,710,860.66.

On December 20, 2016, the bond with an unchanged coupon of 8.25% was increased by a nominal EUR 20,000k. The change in market interest rates since the first issue resulted in an additional premium of EUR 600k.

6 Changes in the Scope of Consolidation

6.1 Acquisitions

GC Leasing Ofis Donanimlari Kiralama Limited Sirketi., Istanbul/Turkey

On March 31, 2016, GRENKE AG assumed control over GC Leasing Ofis Donanimlari Kiralama Limited Sirketi., Istanbul/Turkey, which has since been renamed GRENKE Kiralama Ltd. Sti. The purchase agreement to acquire 100% of the shares and voting rights in the company was concluded on April 27, 2016.

Prior to the acquisition, GRENKE Kiralama Ltd. Sti., Istanbul/Turkey, was active within GRENKE AG's franchise system specialising in the sale of small-ticket leases with a strong focus on IT and IT equipment. Because not all of the relevant information for a final purchase price allocation is available, the fair values of the assets and liabilities are preliminary and may be subject to adjustments based on new information obtained during the acquisition process.

The following information relates to the preliminary fair value of the significant categories of identifiable assets and liabilities at the date of the company's acquisition: intangible assets EUR 1,639k, lease receivables EUR 6,960k, other assets EUR 2,380k, intra-group liabilities from refinancing the leasing business EUR 11,479k, deferred tax liabilities EUR 480k and other liabilities EUR 4,162k. Intangible assets are largely attributable to non-contractual relationships of resellers with clients and non-competitive clauses. Of the lease receivables with a gross amount of EUR 9,050k, an amount of EUR 2,090k is impaired and is not expected to be recovered. The refinancing liabilities are owed to GRENKE FINANCE Plc. and were eliminated as a result of the consolidation and, therefore, are not reported in the consolidated statement of financial position. The deferred tax liabilities resulted from the revaluation and identification of assets in the course of the purchase price allocation. The purchase price allocation is still preliminary and resulted in goodwill of EUR 5,507k that is expected to be not tax deductible. Goodwill has declined by EUR 736k since the acquisition date due to currency translation effects and includes intangible assets that could not be separately identified such as employees and expected synergy effects. The company's contribution to consolidated net income, including the effects from purchase price allocation, has been negligible due to the short period of time that the company has been part of the GRENKE Consolidated Group. In connection with the purchase price of EUR 1,700k in cash, loans from a former shareholder to the acquired entity amounting to EUR 1,334k were assumed. The total consideration paid for the business combination amounted to EUR 366k. The cash acquired with the business combination amounted to EUR 1,215k. All costs related to the acquisition were recognised in profit and loss. Since the date of acquisition, the acquired company has contributed a net result of EUR – 1,534k to the Consolidated Group's net profit after consolidation effects and effects from the purchase price allocation. Had GRENKE acquired the company as per January 1, 2016, the subsidiary would have contributed a negative annual result in the amount of EUR –2,308k to the Consolidated Group's net profit.

6.2 Further Changes and Disclosures

The purchase price allocation for GRENKELEASING d.o.o., Ljubljana /Slovenia (formerly GC Leasing d.o.o.), which was acquired in the previous year, was finalised in the first quarter of 2016. There were no changes to the preliminary fair value of assets and liabilities.

Further information on the business combinations of the previous year are presented in the Notes to the Company's consolidated financial statements of December 31, 2015.

7 Disclosures on Financial Instruments

7.1 Additional Information on Financial Instruments

			Valuation in accordance with IAS 39			Valuation in accordance with IAS 17
Dec. 31, 2016 EURk	**Measurement category**	**Carrying amount Dec. 31, 2016**	**At fair value directly in equity**	**At fair value through profit and loss**	**Amortised cost**	
Financial assets						
Cash and cash equivalents	L&R	156,896			156,896	
Financial instruments with positive fair value without hedging relationship	AtFVtPL	3,620		3,620		
Financial instruments with positive fair value with hedging relationship	n. a.	97	97			
Lease receivables (performing)	n. a.	3,175,908				3,175,908
Lease receivables (non-performing)	L&R	94,202			94,202	
Trade receivables	L&R	4,474			4,474	
Other investments	Afs	3,262			3,262	
Other financial assets	L&R	163,471			163,471	
Aggregated categories						
	L&R				419,043	
	AtFVtPL			3,620		
	Afs				3,262	
	n. a.		97			3,175,908
Financial liabilities						
Liabilities from the refinancing of lease receivables	oL	2,702,143			2,702,143	
Liabilities from deposit business	oL	417,088			417,088	
Trade payables	oL	16,663			16,663	
Bank liabilities	oL	2,824			2,824	
Financial instruments with negative fair value without hedging relationship	AtFVtPL	2,976		2,976		
Aggregated categories						
	oL				3,138,718	
	AtFVtPL			2,976		

Abbreviations:

AtFVtPL: At Fair Value through Profit and Loss/Financial assets and financial liabilities measured at fair value through profit and loss

L&R: Loans and Receivables

n. a. not applicable/no category according to IFRS 7.8

oL other (financial) Liabilities

Afs Available-for-sale financial assets

			Valuation in accordance with IAS 39			Valuation in accordance with IAS 17
Dec. 31, 2015 EURk	**Measurement category**	**Carrying amount Dec. 31, 2015**	**At fair value directly in equity**	**At fair value through profit and loss**	**Amortised cost**	
Financial assets						
Cash and cash equivalents	L&R	186,453			186,453	
Financial instruments with positive fair value without hedging relationship	AtFVtPL	277		277		
Lease receivables (performing)	n. a.	2,758,660				2,758,660
Lease receivables (non-performing)	L&R	95,512			95,512	
Trade receivables	L&R	4,272			4,272	
Other financial assets	L&R	111,023			111,023	
Aggregated categories						
	L&R				397,260	
	AtFVtPL			277		
	n. a.					2,758,660
Financial liabilities						
Liabilities from the refinancing of lease receivables	oL	2,341,080			2,341,080	
Liabilities from deposit business	oL	349,304			349,304	
Trade payables	oL	10,489			10,489	
Bank liabilities	oL	1,960			1,960	
Financial instruments with negative fair value without hedging relationship	AtFVtPL	3,401		3,401		
Financial instruments with negative fair value with hedging relationship	n. a.	39	39			
Aggregated categories						
	oL				2,702,833	
	AtFVtPL			3,401		
	n. a.		39			

Abbreviations:

AtFVtPL:	At Fair Value through Profit and Loss/Financial assets and financial liabilities measured at fair value through profit and loss
L&R:	Loans and Receivables
n. a.	not applicable/no category according to IFRS 7.8
oL	other (financial) Liabilities
Afs	Available-for-sale financial assets

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Net gains and losses Dec. 31, 2016 (EURk)	Currency translation	Impairment	From disposal	Net profit
Loans and Receivables	–6,074	–4,470	–48,278	**–58,822**
At Fair Value through Profit and Loss	3,771	0	0	**3,771**
Other Financial Liabilities	0	0	0	**0**
Dec. 31, 2015 (EURk)				
Loans and Receivables	–2,425	–6,082	–51,535	**–60,042**
At Fair Value through Profit and Loss	323	0	0	**323**
Other Financial Liabilities	0	0	0	**0**

Total interest income calculated according to the effective interest method amounted to EUR 7,599k (previous year: EUR 6,666k; adjusted by EUR 1,122k). Total interest expenses for financial assets and financial liabilities not measured at fair value through profit and loss was EUR 1,420k (previous year: EUR 317k).

Net gains from lease receivables are comprised of interest income, profit from new business, and profit from disposals. They amounted to EUR 306,706k (previous year: EUR 282,182k; adjusted by EUR –1,122k). Net gains and losses from financial instruments recognised at fair value through profit and loss include not only the changes in fair value (for forward exchange contracts shown as the effect from the currency translation and interest hedges as interest effect), but also the results from accrued interest and from the early disposal resulting from an early sale.

7.1.1 Financial Risk Strategy

Please refer to the combined management report and management report for qualitative and quantitative disclosures regarding default risk, liquidity risk and market risk.

7.2 Maturity of Financial Obligations

The table below shows the maturities of the earliest possible non-discounted contractual cash flows of the financial obligations at the end of the reporting period of the most recent and the previous fiscal years. Some amounts do not match the amounts shown in the statement of financial position as they relate to undiscounted cash flows.

As per Dec. 31, 2016

EURk	Due on demand	Up to 3 months	3 to 12 months	1 to 5 years	More than 5 years
Type of liability					
Refinancing liabilities	0	303,852	752,702	1,533,571	215,956
Liabilities from deposit business	34,520	69,245	124,360	188,963	0
Bank liabilities	131	2,693	0	0	0
Other liabilities	0	20,396	0	0	0
Trade payables	0	16,663	0	0	0
Negative fair values from derivative financial instruments	0	328	897	1,751	0
Total	**34,651**	**413,177**	**877,959**	**1,724,285**	**215,956**

As per Dec. 31, 2015

EURk	Due on demand	Up to 3 months	3 to 12 months	1 to 5 years	More than 5 years
Type of liability					
Refinancing liabilities	0	444,350	471,995	1,518,860	934
Liabilities from deposit business	19,154	61,870	119,973	148,307	0
Bank liabilities	875	1,085	0	0	0
Other liabilities	0	17,294	0	0	0
Trade payables	0	10,489	0	0	0
Negative fair values from derivative financial instruments	0	1,192	932	1,316	0
Total	**20,029**	**536,280**	**592,900**	**1,668,483**	**934**

With respect to the disclosures on liquidity risk management, please refer to the explanations in the combined group management report and management report.

7.3 Derivative Financial Instruments

7.3.1 Use and Measurement

Business Model

As a small-ticket IT leasing company, GRENKE Consolidated Group offers lease contracts to B2B customers for mobile IT assets, among others. The lease portfolio, i.e. all lease contracts in their entirety, has fixed contractual terms over the duration of each individual contract. Upon conclusion of the contract, both the periodical payments as well as the interest rate used to calculate the payments are set out. Neither of the parties can subsequently amend these terms. GRENKE Consolidated Group only dissolves or agrees to dissolve contracts prematurely (repurchase, exchange option, termination, etc.) if the lessee bears the potential loss (i.e. due to lost interest). Each derivative contract has an underlying economic transaction with a corresponding contrarian risk position. Contracts are only concluded with credit institutions having an investment grade rating. Therefore, and due to the diversification of our contract partners, the maximum credit risk is of minor importance and is limited to the carrying amount. Please refer to the combined group management report and management report, and particularly to the risk report and the report on the financial position and net assets for qualitative and quantitative disclosures regarding default risk, liquidity risk, and market risks. Please refer to the Notes to the Consolidated Statement of Financial Position for more information.

Hedging Policy

Derivatives are used when, and only when, underlying contracts must be hedged. Underlying contracts are the contractual obligations entered into by GRENKE Consolidated Group in order to achieve its objectives. The Treasury department is not a separate profit centre. The use of derivatives is limited to hedging the profits of GRENKE Consolidated Group to the extent stipulated in the Company’s Articles of Association.

Items are largely hedged in terms of volume or amount, with various instruments being used. The choice of instrument is always a management decision based on the risk profile, i.e. the potential income associated with the risk in question. In addition to benefiting from falling interest rates, interest rate caps also entail a risk of rising finance costs until the strike is reached, whereas swaps fix a specified interest rate for the term of the underlying transaction.

Measurement

Since the derivatives used are so-called OTC derivatives rather than standardised listed financial instruments, recognised measurement models are used for calculating fair values. The necessary parameters for measurement, such as interest rates, yield curves, and foreign exchange spot and forward rates, can be observed on the market at all times and may be accessed via external sources of information.

7.3.2 Currency Risk Management

GRENKE Consolidated Group is exposed to currency risks as a result of its European activities and the growing significance of its international markets. Derivatives are used to mitigate or eliminate these risks.

Derivative Financial Instruments for Currency Hedging

Forward exchange contracts were and are used to hedge the cash flows from the refinancing of the international franchise companies in Dubai, Canada, Croatia and Singapore, as well as the British, Czech, Swedish, Hungarian, Swiss (Factoring), Danish and Turkish subsidiaries. The GRENKE Consolidated Group AG finances the lease receivables generated by the franchisees and the subsidiaries in the corresponding foreign currencies and receives payments in those currencies over the term of the underlying lease contracts.

Hedge accounting was not applied. The fair values of the forward exchange contracts are recorded under financial instruments with positive fair value and financial instruments with negative fair value. As per the end of the reporting period, there were asset and liability forward exchange contracts, leading to their disclosure as assets (see Note 5.1) as well as liabilities (see Note 5.12). As per the end of the reporting period, forward exchange contracts totalled a nominal volume equivalent to EUR 125,722k (previous year: EUR 187,452k).

These contracts are divided by currency as follows:

EURk	Nominal volume as per		Maturity of the nominal volume as per Dec. 31, 2016				Hedged
	Dec. 31, 2015	Dec. 31, 2016	2017	2018	2019	later	average rate
EUR buying							
TRY	10,637	10,637	11,173				3.58
CZK	7,022	3,210	3,641	2,653	1,334	867	27.17
GBP	74,683	73,998	84,141	120			0.87
CHF	8,669	8,669	9,019				1.08
HUF	4,072	2,153	2,956	1,771	824	238	329.39
CAD	3,544	2,601	1,130	3,668	4,442		1.51
SEK	19,021	5,385	7,256	8,271	8,534		9.51
DKK	45,016	12,872	20,858	15,614	13,162	1,500	7.49
AED	13,649	5,058	7,743	5,200	2,583	801	4.48
SGD					1,969		1.67
HRK	1,139	1,139	530				7.55

Sensitivity

For information on exchange rate sensitivity, please refer to the detailed notes on market price risk in the risk report contained in the combined group management report.

7.3.3 Interest Rate Risk Management

The interest rate risk for GRENKE Consolidated Group's operations results mainly from the sensitivity of its financial liabilities to changes in market interest rates. GRENKE Consolidated Group endeavours to limit the impact of such risks on interest expense and net interest income by employing appropriate derivatives.

Derivative Financial Instruments for Interest Rate Hedging

Issuing bonds and contracting interest rate swaps are elements of implementing a financing strategy under which GRENKE Consolidated Group separates refinancing from interest rate hedging in order to obtain maximum flexibility for optimising its refinancing activities. The risks (variable cash flows) which may result are hedged by appropriate interest rate derivatives.

Interest rate swaps are used as hedging instruments and are designated as hedges in accordance with IAS 39 if the appropriate requirements have been met. As all interest rate derivatives used in hedge accounting have been proven to be 100% effective, the changes in fair value in relation to their "clean value" (excluding accrued interest) were recognised in other comprehensive income.

Under the ABCP programmes as well as the FCT "GK"-COMPARTMENT "G 2" and FCT "GK"-COMPARTMENT "G 3", the respective structured entity or GRENKE AG is responsible for interest rate hedging and thus interest rate risk management. The variable refinancing of the ABCP transaction is economically hedged by the employment of interest rate swaps. From the perspective of the GRENKE Consolidated Group, both are receiver swaps. A fixed interest rate is exchanged for a floating-rate interest.

In fiscal years 2016 and 2015, apart from the ABCP programmes, only payer swaps were contracted. The payer swaps bear the agreed fixed interest rate from interest rate swaps. The swaps in place at the end of the reporting period had a nominal volume as per December 31, 2016 of EUR 402 million (previous year: EUR 402 million) and contracted fixed interest rates in the range of 0.238% and 0.016% (previous year: 0.238% and 0.016%) over the respective duration. The longest contracted interest rate swap expires in 2018 (previous year: expiry 2017). The table below shows the development of the nominal volumes of the payer swaps as per the end of the reporting period of the coming years. The average interest rate is defined as the arithmetic mean of the existing swaps.

EURk	**Nominal volume as per Dec. 31.**					**Average interest rate**
	2015	**2016**	**2017**	**2018**	**2019**	**2016**
Contracted prior to 2016	402,000	12,200	12,200			–0.02%
Contracted in 2016		390,000	240,000	150,000		–0.40%
Total	**402,200**	**402,200**	**252,200**	**150,000**		

Sensitivity

For information on interest rate sensitivity, please refer to the detailed notes on market price risk in the risk report contained in the combined group management report and GRENKE AG's management report.

7.3.4 Hedge Effectiveness

IFRS accounting requires documentation and a risk analysis when derivative financial instruments are employed. The appropriation between the underlying transaction and the hedging instrument determines the effectiveness of a hedging relationship. By employing derivatives for interest rate hedging, the GRENKE Consolidated Group applies hedge accounting in accordance with IAS 39. Hedge effectiveness, as required by IFRSs, is in line with GRENKE Consolidated Group's intention of using derivatives only to hedge risks from designated underlying transaction and to never enter into derivatives for speculative reasons.

The tests of effectiveness for each financial derivative accounted for in a hedge, in accordance with IAS 39, were performed as per the end of each quarter using the "hypothetical derivative method". The documentation of each hedging relationship describes the underlying transaction, hedged risk, strategy, hedging instrument, estimate of effectiveness and names the counterparty. A hedging relationship only exists in substance for currency hedging. Although the hedging instruments are specifically designated, hedge accounting pursuant to IAS 39 is not applied.

Forward Exchange Contracts

The underlying transaction for all forward exchange hedges is determined by the payments resulting from the financing of the leasing business in the respective currency area. The cash flows denominated in foreign currency are the basis for the forward contracts. The hedge may be classified as highly effective because only the actual cash flows are hedged and never a higher amount. Ideally, the dates of the financing and the foreign exchange hedge coincide to ensure the best possible hedge of the cash flow risk.

Interest Rate Swaps

The parameters of the underlying transaction resulting from the financing (liability) are considered first and foremost when contracting interest rate swaps. For this reason, the interest rate terms of the swaps on the variable side are the same as those of the underlying transaction. Furthermore, the swap volume contracted is never greater than the volume of the hedged financing. The active integration of existing and future planned refinancing transactions allows for anticipatory risk management. Going forward, quarterly tests of effectiveness will be conducted as part of this ongoing analysis, in which the effectiveness of the hedging relationships is tested using a method allowed under IFRS.

To date, the hedging relationships between interest rate swaps and existing and planned financing have proven to be highly effective. Under the "hypothetical derivative method", effectiveness was almost 100%. For all derivatives in hedge accounting, both the retrospective and the prospective effectiveness of the hedging relationships are confirmed as per the end of the reporting period. In the opinion of the GRENKE Consolidated Group and the risk management, interest rate derivatives outside of hedge accounting according to IAS 39 are also considered effective instruments for hedging interest rate risks in the Consolidated Group.

The hedged interest payments will presumably be recognised in profit in loss in their entirety in 2017. This will result in a reclassification of the corresponding net gains and losses previously recognised in other comprehensive income into other interest income in an amount of EUR 97k (previous year: interest expense of EUR 39k)

7.4 Fair Value of Financial Instruments

7.4.1 Fair Value of Primary Financial Instruments

The following table presents the carrying amounts and fair values of financial assets and financial liabilities by category of financial instruments that are not measured at fair value. The table does not contain information on the fair value of financial assets and financial liabilities if the carrying amount represents an appropriate approximation to the fair value. This includes the following line items in the statement of financial position: cash and cash equivalents, trade receivables, non-performing lease receivables, and trade payables. All primary financial instruments are assigned to level 2 of the fair value hierarchy except for exchange-listed bonds that are included in refinancing liabilities and are assigned to level 1 of the fair value hierarchy. As per the reporting date, the carrying amount of exchange-listed bonds was EUR 1,209,998k (previous year: EUR 1,047,200k), and their fair value amounted to EUR 1,236,937k (previous year: EUR 1,058,329k). All financial assets are allocated to the loans and receivables measurement category except for performing lease receivables. All financial liabilities are allocated to the other financial liabilities measurement category.

EURk	Fair value 2016	Carrying amount 2016	Fair value 2015	Carrying amount 2015
Financial assets				
Lease receivables (performing)	3,506,128	3,175,908	3,060,507	2,758,660
Other financial assets	166,623	166,733	113,941	111,023
Financial liabilities				
Refinancing liabilities	2,732,454	2,702,143	2,370,921	2,341,080
Liabilities from deposit business	420,411	417,088	353,861	349,304
Bank liabilities	2,824	2,824	1,960	1,960

7.4.2 Fair Value of Derivative Financial Instruments

At the end of the reporting period, all derivative financial instruments, which include interest rate derivatives (interest rate swaps) and forward exchange contracts, are recognised at fair value in the GRENKE Consolidated Group. Forward exchange contracts are recognised without hedging relationship. All derivative financial instruments are assigned to level 2 of the fair value hierarchy.

EURk	Fair value 2016	Carrying amount 2016	Fair value 2015	Carrying amount 2015
Financial Assets				
Interest rate derivatives with hedging relationship	97	97	0	0
Interest rate derivatives without hedging relationship	0	0	0	0
Forward exchange contracts	3,620	3,620	277	277
Total	**3,717**	**3,717**	**277**	**277**
Financial Liabilities				
Interest rate derivatives with hedging relationship	0	0	39	39
Interest rate derivatives without hedging relationship	0	0	0	0
Forward exchange contracts	2,976	2,976	3,401	3,401
Total	**2,976**	**2,976**	**3,440**	**3,440**

The GRENKE Consolidated Group uses so-called OTC derivatives ("over the counter"). These are directly concluded with counterparties having at least investment grade status. Thus, there are no quoted market prices available.

Fair values of forward exchange contracts and interest rate derivatives are determined based on valuation models that include observable input parameters. Forward exchange contracts are measured on the basis of a market-to-market valuation model. The fair value of interest rate derivatives is determined on the basis of the net present value method. The input parameters applied in the valuation models are derived from market quotes. Interest rates with matching maturities in the traded currencies are used for forward exchange contracts, and interest rates are used for interest rate derivatives. To obtain the fair value of such OTC derivatives, the determined amounts are multiplied with the counterparty's credit default swaps (CDS) with matching maturities that are observable on the market or their own credit risk using what is known as the "add-on method".

The predominant portion of cash flows of these hedges is expected to impact the net profit over the next two years.

7.4.3 Measurement Methods and Input Parameters Used

The following table presents the measurement methods used to determine the fair values and the applied input parameters and assumptions:

Type and level	Measurement method	Input parameters
Fair value hierarchy Level 1		
Exchange-listed bonds	n/a	quoted market price as per the reporting date
Fair value hierarchy Level 2		
Other financial assets	discounted present value of estimated future cash flows	available interest rates at comparable conditions and residual terms using the counterparty's credit risk
Financial liabilities (liabilities from the refinancing of the leasing business, promissory notes, bank liabilities)	discounted present value of estimated future cash flows	available interest rates at comparable conditions and residual terms using the own credit risk (Debt Value Adjustment [DVA])
Forward exchange contracts	market-to-market discounted present value of estimated future cash flows	available interest rates at the end of the term in the traded currencies using the own counterparty risk (Debt Value Adjustment [DVA]) or the counterparty's credit risk (CVA [Credit Value Adjustment]) derived from available credit default swap (CDS) quotes
Interest rate derivatives	net present value model discounted present value of estimated future cash flows	available interest rates at comparable conditions and residual terms using the own counterparty risk DVA (Debt Value Adjustment) or the counterparty's credit risk CVA (Credit Value Adjustment) derived from available credit default swap (CDS) quotes

7.5 Transfer of Financial Assets

The following table lists transferred financial assets not fully derecognised and the corresponding liabilities at their respective carrying amount and fair value.

EURk	Carrying amount	Carrying amount of corresponding liability	Fair Value	Fair Value of corresponding liability	Net position
Transferred lease receivables Dec. 31, 2016	**190,402**	**126,843**	**206,363**	**138,853**	**63,559**
From sale of receivable agreements	190,402	126,843	206,363	138,853	63,559
Transferred lease receivables Dec. 31, 2015	**198,437**	**157,142**	**217,146**	**174,413**	**41,295**
From sale of receivable agreements	198,437	157,142	217,146	174,413	41,295

For more information, please see the explanations on sales of receivables contracts under Note 5.11.2.

8 Segment Reporting

8.1 Description of Reportable Segments

GRENKE Consolidated Group’s reporting on the development of its segments is aligned with its prevailing organisational structure within the GRENKE Consolidated Group. Thus, operating segments are divided into Leasing, Banking, and Factoring based on the management of the Company’s segments. Separate financial information is available for the three operating segments.

Leasing

The Leasing segment comprises all of the activities that are related to the Consolidated Group’s leasing business. The service offer encompasses the provision of financing to commercial lessees, rental, insurance, service, and maintenance offerings, as well as the disposal of used equipment.

The GRENKE Consolidated Group’s leasing business focuses primarily on the small-ticket leasing of IT products, such as PCs, notebooks, servers, monitors, peripheral devices, software, telecommunication and copier equipment as well as other IT products. Nearly all leases concluded provide for full cost recovery.

Banking

The Banking segment comprises the activities of GRENKE BANK AG, which regards itself as a financing partner particularly to small and medium-sized companies (SMEs). Additionally, GRENKE BANK AG cooperates with development banks in providing financing to this clientele in the context of business start-ups. Furthermore, fixed-term deposits are offered via its internet presence. The bank’s business is focused primarily on German customers.

Factoring

The Factoring segment contains traditional factoring services focused on small-ticket factoring. Within non-recourse factoring, the segment offers both notification factoring, where the debtor is notified of the assignment of receivables, and non-notification factoring, where the debtor is not notified accordingly. The segment also offers collection services (recourse factoring) where the customer continues to bear the credit risk.

8.2 Segment Data

The accounting policies employed to gather segment information are the same as those used for the consolidated financial statements (see Note 3). Intra-group transactions are performed at standard market prices.

The Board of Directors of GRENKE AG is responsible for assessing the performance of the GRENKE Consolidated Group. In addition to new business volume (Leasing and Factoring segments) and contribution margin 2 for the Leasing segment, the key performance indicators are defined as operating segment income, segment result before other net financial income, and staff costs. Other net financial income as well as income tax expenses/income represent the main components of the consolidated income statement that are not allocated to individual segments.

The segment information was calculated as follows:

- operating segment income consists of net interest income after settlement of claims and risk provision, profit from service business, profit from new business, and profit from disposals;
- segment result is calculated as the operating result before taxes;
- segment assets comprise of the operating assets excluding tax assets;
- segment liabilities correspond to the liabilities attributable to the respective segment with the exception of tax liabilities.

EURk	Leasing segment		Banking segment		Factoring segment		Total segments		Consolidation effects		Consolidated Group	
January to December	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Operating segment income	**258,514**	215,128	**12,294**	13,143	**3,986**	3,789	**274,794**	232,060	**0**	0	**274,794**	232,060
Staff costs	**66,177**	59,423	**1,826**	1,558	**2,621**	2,209	**70,624**	63,190	**0**	0	**70,624**	63,190
Segment result	**128,329**	99,567	**8,387**	9,462	**–189**	308	**136,527**	109,337	**0**	0	**136,527**	109,337
Reconciliation to consolidated financial statements												
Operating result											136,527	109,337
Other financial income											–1,991	124
Taxes											31,302	28,616
Net profit according to consolidated income statement											**103,234**	80,845
As per December 31												
Segment assets	**3,880,752**	3,383,835	**722,402**	600,052	**35,908**	31,248	**4,639,062**	4,015,135	**–709,092**	–575,823	**3,929,970**	3,439,312
Reconciliation to consolidated financial statements												
Tax assets											41,482	35,218
Total assets according to consolidated statement of financial position											**3,971,452**	3,474,530
Segment liabilities	**3,229,856**	2,852,323	**668,390**	525,705	**27,247**	22,945	**3,925,493**	3,400,973	**–709,092**	–575,823	**3,216,401**	2,825,150
Reconciliation to consolidated financial statements												
Tax liabilities											64,631	58,726
Liabilities according to consolidated statement of financial position											**3,281,032**	2,883,876

8.3 Information on Regional Segments

On a country level, Germany, France, and Italy are the main regional segments in which revenues are generated with external customers. All other countries are combined under "Other countries". Operating income and non-current assets are presented for reporting countries. The allocation to the individual geographical segments is based on the country of origin of the external customers with which revenues are generated. Non-current assets are allocated according to the countries in which they originated.

Operating income consists of the same items as discussed above for the operating segment income. Non-current assets are comprised of non-current lease receivables, property, plant, and equipment, goodwill, other intangible assets, and other non-current assets.

EURk	Germany		France		Italy		Other countries		Consolidated Group	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Operating income (January to December)	**71,562**	61,262	**62,015**	53,703	**58,627**	43,165	**82,590**	73,930	**274,794**	232,060
Non-current assets (as per December 31)	**568,989**	525,053	**549,635**	483,595	**412,800**	310,597	**734,333**	657,453	**2,265,757**	1,976,698

9 Other Disclosures

9.1 Capital Management

9.1.1 Economic Capital

The primary goal of the GRENKE Consolidated Group's capital management is to ensure that its credit rating is maintained in order to support its operations and safeguard liquidity, as well as to maintain risk-bearing capacity at all times within the requirements placed on the Consolidated Group by the Minimum Requirements for Risk Management [Mindestanforderungen an das Risikomanagement].

The GRENKE Consolidated Group monitors its capital among other using the equity ratio, i.e. the ratio of its equity according to the statement of financial position to total assets. In accordance with the Consolidated Group guidelines, we aim for an equity ratio of 16% as in the previous year. In addition, the Consolidated Group's determination of maximum risk-bearing capacity, and its risk-limiting system through the limiting of risk positions, the safeguarding and monitoring of economic capital is guaranteed.

9.1.2 Regulatory Capital

As a financial services provider and parent company of the banking group, GRENKE AG must meet the equity requirements of banking groups under Section 10a KWG in conjunction with Section 25ff of EU Regulation No. 575/2013 (Capital Requirement Regulation [CRR]).

The regulatory scope of consolidated companies of GRENKE AG is determined by the Consolidated Group's scope of consolidation. The solvency of the banking group is also measured based on the affiliation with the Consolidated Group. Equity is calculated in the context of the COREP reporting (Common Solvency Ratio Reporting) under Section 72ff CRR.

For the presentation of equity, please refer to the combined group management report and the management report.

The return on capital was 2.6% according to Section 26a KWG (1) sentence 4.

9.2 Franchise System

GRENKE AG provides its expertise, infrastructure, and funds for refinancing lease contracts under a franchise arrangement. However, it does not own shares in these franchisees, nor does it have any control over the franchisees' business policies. In addition to franchise fees totalling EUR 777k (previous year: EUR 573k), the Consolidated Group generated income from interest on loans of EUR 1,355k (previous year: EUR 1,122k) (see Note 4.1) as well as from the rental of software in an amount of EUR 24k (previous year: EUR 19k). As per the end of the reporting period, there were further receivables from franchisees totalling EUR 1,144k (previous year: EUR 622k) (see Notes 5.4 and 5.5) in addition to loans in an amount of EUR 31,848k (previous year: EUR 29,994k).

9.3 Contingencies (Contingent Liabilities) and Other Financial Obligations

GRENKE AG, as guarantor for individual franchise companies, has granted financial guarantees of EUR 77.3 million (previous year: EUR 42.2 million), which represents the maximum credit risk. The actual utilisation by the guarantee holder was below this amount and totalled EUR 56.0 million (previous year: EUR 31.6 million).

Irrevocable credit commitments from the loan business amounted to EUR 4,694k (previous year: EUR 4,294k) and include unutilised limited overdrafts and unutilised loan commitments.

The Company has other financial obligations related to rent, building maintenance, and lease contracts. Lease contracts for some buildings contain a clause that allows for an increase in the rental rates in accordance with the prevailing market conditions. Several lease agreements contain options to extend the contracts. Other restrictions do not exist. The resulting financial obligations are presented below:

EURk	Dec. 31, 2016	Dec. 31, 2015
Rent, maintenance, and lease obligations		
due in the subsequent year	12,999	11,567
due in 2 to 5 years	22,946	21,693
due in more than 5 years	4,749	4,228
Total	**40,694**	**37,488**

The rent payments are partly offset by expected rental income from subleases of EUR 51k in fiscal year 2017 (previous year: EUR 224k). In subsequent years, there will be additional rental income of EUR 92k. There are extension options ranging from one to five years on leases for rented premises.

Under three agreements on the sale of receivables of GRENKE Investionen Verwaltungs KGaA to secure all receivables of the holding company (Grenke Investitionen Verwaltungs Kommanditgesellschaft auf Aktien) from the operating company, the operating company (GRENKE AG) assigns to the holding company the following from lease contracts with end lessees (sublease contract) for leasing assets which are the subject of a purchase agreement between the operating company and the holding company:

All receivables, claims and rights arising from these sublease contracts, including any claims from extended leases following the expiry of the original lease term, any claims for compensation payments, residual values, and payment of a purchase price from the sale of the respective lease asset. Claims from credit and property insurance from the sublease contract are also assigned as are any claims from repurchase obligations on the part of suppliers of lease assets or of third parties. The buyer of the receivables acquires the equitable lien on the lease assets underlying the receivables purchase agreement.

With the notice of July 27, 2009, GRENKE AG submitted a Letter of Commitment in accordance with Section 5 (10) of the Statute of the Deposit Protection Fund to the Association of German Banks [Bundesverband deutscher Banken e.V.]. With this notification, GRENKE AG has waived any claim against the Association of German Banks that would be in favour of GRENKE BANK AG.

Apart from bearing the political risk, GRENKE AG ensures that the consolidated companies Grenke Investitionen Verwaltungs Kommanditgesellschaft auf Aktien and GRENKEFACTORING GmbH are able to meet their contractual obligations. The purpose of the letter of comfort is the use of the waiver rule pursuant to Section 2a (1) KWG in conjunction with Art. 7 CRR and in conjunction with Section 2a (5) KWG by the respective subsidiary.

Expenses from Rent and Lease Contracts

In the fiscal year, expenses for rent and lease contracts amounted to EUR 9,252k (previous year: EUR 8,247k). They are recognised under operating expenses and mainly relate to the rental of offices for the individual branches and company car leases.

9.4 Tax Audits

A tax audit at GRENKE AG and Grenke Investment Management KGaA for fiscal years 2005 to 2009 was completed during the reporting year. The GRENKE Consolidated Group has lodged an appeal against the audit assessments. The expected amount of tax claims and tax liabilities based on the management’s best estimates (uncertain tax items) was recognised.

In October 2015, the audit instructions for fiscal years 2010 to 2014 were established for GRENKE AG, Grenke Investitionen Verwaltungs KGaA, GRENKE Service AG, GRENKEFACTORING GmbH and GRENKE BANK AG. The tax audits began in November 2016.

9.5 Consulting and Audit Fees

The auditor’s fees in fiscal year 2016 are divided as follows:

EURk	2016	2015
Audit services	586	600
Other assurance services	70	192
Other services	103	44
Total	**759**	**836**

A total of EUR 9k of the overall fees is related to prior periods (previous year: EUR 38k).

9.6 Related Party Disclosures

Third parties are considered related if one party controls GRENKE AG or has joint control over GRENKE AG, or has the power to exercise considerable influence over its business or operating decisions. Related third parties of the GRENKE Consolidated Group include people in key positions and their family members, subsidiaries and associated companies of GRENKE AG, and entities that exercise a considerable influence. GRENKE AG renders various services for subsidiaries in its ordinary business activities. Conversely, the various Consolidated Group companies also render services within the GRENKE Consolidated Group as part of their business purpose. These extensive business transactions are performed at market conditions.

Liabilities from Related Entities

EURk	Dec. 31, 2016	Dec. 31, 2015
Non-consolidated subsidiaries	262	0
Associated companies	3,470	5,449

The liabilities from non-consolidated subsidiaries consist of outstanding deposits. Liabilities from associated entities resulted from the deposit business of the Bank. There was a related interest expense of EUR 9k (previous year: EUR 1k).

As part of its ordinary business activities, GRENKE BANK AG offers related parties services under normal market conditions. At the end of the reporting period, the bank had received deposits totalling EUR 3,216k (previous year: EUR 3,829k) from members of the GRENKE Consolidated Group’s Board of Directors and their close family members. The related interest expenses were EUR 54k (previous year: EUR 54k). The Bank received deposits totalling EUR 1,203k (previous year: EUR 1,709k) from members of the GRENKE Consolidated Group’s Supervisory Board and their close relatives. The related interest expenses were EUR 21k (previous year: EUR 34k). As per the reporting date, unsettled credit card accounts of members of the Board of Directors and their family members amounted to EUR 22k (previous year: EUR 16k). No further loans were granted to any of these individuals during the reporting period.

In accordance with the Articles of Association, the Supervisory Board of GRENKE AG consists of six members. In fiscal year 2016, the members of the Supervisory Board were:

- Prof Dr Ernst-Moritz Lipp, Baden-Baden, Germany, Chairman and Professor of International Finance and General Manager of ODEWALD & COMPAGNIE Gesellschaft für Beteiligungen mbH, Berlin, Germany
- Mr Gerhard E. Witt, Baden-Baden, Germany, Deputy Chairman and public auditor and tax advisor
- Ms Tanja Dreilich, Iserlohn, Germany, degree in business administration, MBA, Managing Director and CFO of Kirchhoff Ecotec GmbH, Iserlohn, Germany and Kirchhoff Automotive Verwaltungsgesellschaft, Iserlohn, Germany
- Dr Ljiljana Mitic, Munich, Germany, independent business consultant
- Mr Florian Schulte, Baden-Baden, Germany, degree in business administration, Managing Director of Fines Holding GmbH, Baden-Baden, Germany, and Managing Director of S.K. Management- und Beteiligungs GmbH, Baden-Baden, Germany
- Mr Erwin Staudt, Leonberg, Germany, economics graduate

Prof Dr Ernst-Moritz Lipp is also the Chairman of the Supervisory Board of GRENKE BANK AG, Baden-Baden, Germany and he member of the Supervisory Board of
Oberberg Klinik Holding GmbH, Berlin, Germany.

Mr Gerhard E. Witt is also Chairman of the Supervisory Board of Grenke Investitionen Verwaltungs KGaA, Baden-Baden, Germany, a subsidiary of GRENKE AG.

Mr Erwin Staudt is a member of the Supervisory Boards of PROFI Engineering Systems AG, Darmstadt, Germany, USU Software AG, Möglingen, Germany, and a member of the Administrative Board of Hahn Verwaltungs-GmbH, Fellbach, Germany. Mr Staudt is also a member of the Advisory Board of Interstuhl Büromöbel GmbH & Co. KG, Meßstetten-Tieringen, Germany.

Mr Florian Schulte is the Chairman of the Supervisory Board of Global Group Dialog Solutions AG, Idstein, Germany, and a member of the Supervisory Board of Syntellix AG, Hannover, Germany.

The term of office of Prof Dr Ernst-Moritz Lipp and Mr Gerhard E. Witt will continue until the end of the Annual General Meeting that resolves on their discharge for the 2017 fiscal year.

The remaining members of the Supervisory Board have been appointed until the end of the Annual General Meeting which decides on their discharge for the 2018 fiscal year.

The GRENKE AG Supervisory Board remuneration (including payments for supplementary services) totalled EUR 222k (previous year: EUR 219k). In accordance with Section 113 (1) sentence 2 no. 1 AktG, Supervisory Board remuneration is defined in Article 10 of GRENKE AG's Articles of Association. The remuneration of the Supervisory Board breaks down as follows:

EURk	**Total**		**Remuneration AG**		**Remuneration KGaA**	
	2016	Previous year	**2016**	Previous year	**2016**	Previous year
Total	**226**	224	**222**	219	**4**	5

The Board of Directors of GRENKE AG consists of the following members:

- Mr Wolfgang Grenke, business man, Baden-Baden, Germany
  Chairman of the Board of Directors
- Ms Antje Leminsky, graduate business administration, Baden-Baden, Germany
  Deputy Chairman of the Board of Directors
- Mr Gilles Christ, MBA, Wissembourg, France
- Mr Jörg Eicker, bank officer, Düsseldorf, Germany (until Dec. 31, 2016)
- Mr Sebastian Hirsch, Bachelor's of Administration (BA), Sinzheim, Germany (as per Jan. 1, 2017)
- Mr Mark Kindermann, graduate business administration, Bühl, Germany

Mr Wolfgang Grenke holds sole power of representation. The other members of the Board of Directors represent GRENKE AG jointly with another member of the Board of Directors or with an authorised signatory.

The remuneration of the Board of Directors for 2016 is as follows:

EURk	Total remuneration	of which fixed	of which variable
Total	**2,656**	**1,701**	**955**
Total (previous year)	2,475	1,340	1,135

The Supervisory Board of GRENKE AG concluded phantom stock agreements with several members of the Board of Directors.

As per December 31, 2016, such agreements were in place with all current members of the Board of Directors with the exception of Mr Grenke. Payments made under these agreements during the past fiscal year amounted to EUR 139k.

While the agreement with Ms Leminsky applies to fiscal years 2015 through 2017, the agreements with Mr Christ, Mr Eicker and Mr Kindermann apply to fiscal years 2016 through 2018. Under these agreements, the Board members are each entitled to payments (tranches) for the respective fiscal years equal to the increase in the value of 20,000 shares of GRENKE AG (6,000 shares in the case of Mr Kindermann) in relation to a defined basic share price. The basic share price is the arithmetic mean of the XETRA closing prices on all trading days from December 1 to December 23 of the respective prior year. The basic share price for the 2016 fiscal year amounts to EUR 180.42.

The payment entitlement is limited in its amount and subject to the statutory provisions for appropriate remuneration, the statutory maximum level of variable remuneration components and especially the rules of the German Banking Act. The maximum payment under these agreements is limited to EUR 400,000 (EUR 150,000 in the case of Mr Kindermann) for the three tranches. This maximum payment applies to the respective agreement in its entirety, i.e. the total payment for the three tranches may not exceed the maximum payment amount. If an annual tranche exceeds the maximum total entitlement and the agreement is still in force for several more years (tranches), then no further entitlements may be acquired in the future. The participants in the programme are required to invest the respective net amount paid plus a personal contribution of 25%of that amount in GRENKE AG shares. The Company is entitled, but not required, to render the payment in whole or in part in the form of shares instead of cash for one or more tranches. In this case, a personal contribution is not required. The shares are subject to a vesting period of four years. Given the sharp increase in the share price in 2015, Ms Leminsky already reached the maximum payment amount in fiscal year 2015. She will not be able acquire any additional entitlements in the future based on this agreement.

The amount of EUR 86k set aside in the previous year as per December 31, 2015 under the agreement with Mr Eicker (2016 tranche) that went into effect on October 1, 2015, will not be paid due to the share price development in the 2016 measurement period. Future entitlements from these tranches were forfeited with Mr Eicker’s resignation from the Board of Directors effective December 31, 2016.

Due to the share price development, Mr Christ and Mr Kindermann have not earned an entitlement to the 2016 tranche.

As per December 31, 2016, the value of the phantom stock agreements for the 2016 tranche was EUR 0k (previous year: EUR 225k). This amount is recognised under staff costs in the income statement and is included under variable remuneration components.

Mr Eicker received a severance payment of EUR 300k for his departure.

In July 2014, Mr Wolfgang Grenke and his family ("the Grenke family") formed a family holding under the name Grenke Beteiligung GmbH & Co. KG, Baden-Baden. On September 17, 2014, the Grenke family transferred all of their shares held in GRENKE AG to this company. These shares were previously part of a pooling agreement. As per the reporting date, Grenke Beteiligung GmbH & Co. KG held 6,301,986 shares in GRENKE AG, corresponding to 42.66% of GRENKE AG's share capital. Grenke Vermögensverwaltung GmbH, Baden-Baden, as the general partner, is authorised to exercise management functions. Mr Wolfgang Grenke and Ms Anneliese Grenke are the Executive Directors of Grenke Vermögensverwaltung GmbH.

Mr Wolfgang Grenke is the Chairman of the Supervisory Board of GRENKE Service AG, Baden-Baden, and a member of the Supervisory Board of GRENKE BANK AG, Baden-Baden. He is also the President of the Advisory Board of GRENKELEASING AG, Zurich/Switzerland, and of GRENKEFACTORING AG, Basel, Switzerland.

Ms Antje Leminsky is a member of the Board of Directors of GRENKE Service AG, Baden-Baden, and member of the Supervisory Boards of GRENKE BANK AG, Baden-Baden, Testo SE & Co. KGaA, Lenzkirch and Testo Management AG, Lenzkirch.

Mr Gilles Christ is member of the Board of Directors of GRENKE ALQUILER S.L., Barcelona/Spain. In addition, he is on the Supervisory Board of GRENKE Service AG, Baden-Baden, and member of the Advisory Board of GRENKELEASING AG, Zurich, Switzerland. He is also General Manager of GRENKELEASING Sp.z.o.o., Poznan, Poland.

Mr Sebastian Hirsch is a member of the Supervisory Board of GRENKE BANK AG, Baden-Baden.

Mr Mark Kindermann is a member of the Board of Directors of GRENKE LIMITED, Dublin/Ireland, as well as the chairman of Board of Directors of GRENKE Service AG, Baden-Baden. Additionally, he is on the Supervisory Boards of Grenkefinance N.V., Vianen/Netherlands and GRENKE BANK AG, Baden-Baden. He is also a member of the Advisory Board of GRENKELEASING AG, Zurich/Switzerland, and GRENKEFACTORING AG, Basel/Switzerland.

Until December 31, 2016, Mr Jörg Eicker has been on the Supervisory Boards of GRENKE Service AG, Baden-Baden and GRENKE BANK AG, Baden-Baden.

9.7 Disclosures on Notifications in Accordance With Sections 21(1) and 22 of the German Securities Trading Act (WpHG)

As part of our investor relations activities we provide comprehensive information about the Company's development. For providing information, GRENKE also makes substantial use of its website. Voting rights notifications that the Company received in accordance with Sections 21 ff of the German Securities Trading Act are published in the Investor Relation section at https://www.grenke.de/en/investor-relations/grenke-share/voting-rights.html.

Voting Right Notifications in the 2016 Fiscal Year:

On July 20, 2016, Ameriprise Financial, Inc., Wilmington, Delaware, United States of America, has informed us according to Article 21 Section 1 WpHG, that on July 7, 2017 its voting rights in GRENKE AG, Baden-Baden, Germany, have fallen below the threshold of 3% and amounted to 2.35% (347,357 voting rights). These voting rights of 2.35% (347,357 voting rights) were attributable to Ameriprise International Holdings GmbH according to Article 22, Section 1, sentence 1, number 6 in connection with sentence 2 WpHG.

On June 20, 2016, Universal-Investment GmbH, Frankfurt am Main, Germany, has informed us according to Article 21 Section 1 WpHG, that on June 15, 2016 its voting rights in GRENKE AG, Baden-Baden, Germany have exceeded the threshold of 3% and amounted to 3.02% (445,886 voting rights).

9.8 Events After the Reporting Period

No events of material importance have occurred subsequent to the end of the fiscal year.

9.9 Declaration in Accordance with Section 161 AktG

The Board of Directors and the Supervisory Board of GRENKE AG issued the declaration pursuant to Section 161 AktG and made it permanently available to shareholders on the Company's website (www.grenke.de/en/investor-relations/corporate-governance/).

AUDIT OPINION

We have audited the consolidated financial statements prepared by GRENKE AG, Baden-Baden, Germany, comprising the income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the notes to the consolidated financial statements, together with the management report and group management report for the fiscal year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and management report and group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) HGB is the responsibility of the legal representatives of the Company. Our responsibility is to express an opinion on the consolidated financial statements and the management report and group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position, and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and the management report and group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Consolidated Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the management report and group management report are examined primarily on a test basis within the framework of the audit. The audit includes the assessment of the annual financial statements of those entities included in the consolidated financial statements, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the legal representatives. The audit also includes an evaluation of the overall presentation of the consolidated financial statements and the management report and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a (1) HGB and give a true and fair view of the net assets, financial position, and results of operations of the Consolidated Group in accordance with these requirements. The management report and group management report are consistent with the consolidated financial statements, comply with the statutory requirements and, as a whole, provide a suitable view of the Company's and Consolidated Group's position and suitably present the opportunities and risks of future development.

Stuttgart, January 31, 2017

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Frey	Brixner
Auditor	Auditor

RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge and according to the applicable accounting standards, the consolidated financial statements give a true and fair view of the net assets, financial position, and results of operations of the Consolidated Group and that the group management report conveys a true and fair view of business performance including financial performance and the situation of the Consolidated Group and describes the main opportunities and risks relating to the Consolidated Group's anticipated development.

Baden-Baden, January 31, 2017

Wolfgang Grenke
(Chairman of the Board of Directors)

Antje Leminsky
(Deputy Chairman of the Board of Directors)

Gilles Christ
(Member of the Board)

Sebastian Hirsch
(Member of the Board)

Mark Kindermann
(Member of the Board)

CALENDAR OF EVENTS

February 8, 2017	Publication of Annual Financial Report 2016 – Press and DVFA Analyst Conference
May 3, 2017	Publication of the Quarterly Statement for the 1st Quarter of 2017
May 11, 2017	Annual General Meeting (Kongresshaus Baden-Baden)
July 28, 2017	Publication of Financial Report for the 2nd Quarter and Half-Year of 2017
October 27, 2017	Publication of the Quarterly Statement for the 3rd Quarter and the First Nine Months of 2017

CONTACT INFORMATION

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Figures in this annual financial report are generally presented in thousands and millions of euro. Due to rounding, differences to the actual number in euro may occur in individual figures. Such differences are not of a material nature. For better readability, gender-specific differentiation was avoided and the terms used refer equally to both genders.

The report is published in German and as an English translation. In the event of any conflict or inconsistency between the English and the German versions, the German original shall prevail.

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