

**Annual financial statements and
management report for the fiscal
year 2016**

**Deutscher Caritasverband e. V.
Freiburg im Breisgau**

**Deutscher Caritasverband e. V.
Freiburg im Breisgau**

Balance Sheet as of 31 December 2016

ASSETS				
	EUR	EUR	Prior year	
			EUR k	EUR k
A. Fixed assets				
I. Intangible assets				
Concessions, industrial rights and similar rights and assets and licenses in such rights and assets acquired for a consideration		40.210,78		44
II. Property, plant and equipment				
1. Land and buildings	26.810.660,00		27.818	
2. Other equipment, furniture and fixtures	1.782.400,89		1.589	
3. Assets under construction	<u>610.529,67</u>	29.203.590,56	<u>251</u>	29.658
III. Financial assets				
1. Equity investments and cooperative shares	299.744,13		300	
2. Securities classified as fixed assets	79.519.661,90		79.688	
3. Other loans	<u>4.570,40</u>	<u>79.823.976,43</u>	<u>13</u>	80.001
		109.067.777,77		109.703
B. Current assets				
I. Inventories				
1. Raw materials, consumables and supplies	48.283,61		42	
2. Merchandise	<u>23.361,78</u>	71.645,39	<u>42</u>	84
II. Receivables and other assets				
1. Trade receivables	779.367,50		580	
2. Receivables from companies in which an equity investment is held	221.835,32		223	
3. Other assets	<u>2.821.981,67</u>	3.823.184,49	<u>4.978</u>	5.781
III. Securities				
Other securities		134.737.727,89		126.393
IV. Cash on hand, Bundesbank balances and bank balances		<u>23.345.163,02</u>		<u>31.524</u>
		161.977.720,79		163.782
C. Prepaid expenses		1.158.357,43		1.116
D. Debit difference from offsetting plan assets		237.450,99		128
		<u>272.441.306,98</u>		<u>274.729</u>

Income Statement for the Fiscal Year
from 1 January to 31 December 2016

	EUR	EUR	Prior year	
			EUR k	EUR k
1. Donations, inheritances and other grants				
a) Donation income				
Donations received in the fiscal year	30.543.151,55		41.752	
Change in special purpose funds from unused donations	<u>5.816.116,10</u>		<u>-5.139</u>	
Income from the use of donations in the fiscal year	<u>36.359.267,65</u>		<u>36.613</u>	
b) Inheritances, gifts and other grants				
Inheritances received in the fiscal year	7.482.814,31 ^{*)}		2.711	
Change in special purpose funds from unused inheritances	<u>-964.608,73</u>		<u>-224</u>	
Income from the use of inheritances in the fiscal year	<u>6.518.205,58</u>	42.877.473,23	<u>2.487</u>	39.100
2. Subsidies				
a) Church subsidies	10.889.858,95		11.842	
b) EU subsidies	1.749.222,94		1.632	
c) Federal subsidies	73.009.946,73		67.253	
d) Other subsidies	8.756.540,75		8.369	
e) Change in special purpose funds from unused subsidies	<u>-3.187.673,03</u>	91.217.896,34	<u>900</u>	89.996
3. Revenue				
a) Sales proceeds from charity stamps	5.533.606,02		5.141	
b) Sales proceeds from publications, campaigns and advertising material	1.857.202,57		1.899	
c) Events, conferences, training and other items	5.394.387,42		5.166	
d) Rents / leases	<u>3.744.993,20</u>	16.530.189,21	<u>3.827</u>	16.033
4. Membership fees		6.924.931,51		6.565
5. Other operating income				
a) Write-ups on financial assets and securities classified as current assets	623.195,45		106	
b) Share price gains	1.093.239,68		1.158	
c) Income from the disposal of fixed assets	701.815,06		22	
d) Release of special items	250.736,00		251	
e) Reversal of provisions	1.142.377,60		550	
f) Other income	<u>1.862.174,56</u>	5.673.538,35	<u>521</u>	2.608
6. Cost of materials				
a) Cost of raw materials, consumables and supplies				
aa) Other commercial requisites	599.095,37		618	
ab) Printing costs (and purchases of printed material)	614.110,69		706	
ac) Purchases of charity stamps	5.519.439,11		5.124	
ad) Purchases of merchandise	<u>22.381,70</u>		<u>46</u>	
	<u>6.755.026,87</u>		<u>6.494</u>	
b) Cost of purchased services				
ba) Energy, water, sewage	384.900,77		396	
bb) Food & beverage, accommodation	365.594,59		346	
bc) Fees	548.972,47		584	
bd) Third-party services	<u>595.167,44</u>		<u>523</u>	
	<u>1.894.635,27</u>		<u>1.849</u>	
Total cost of materials		8.649.662,14		8.343

^{*)} This includes EUR 6,996.70 from donations in-kind and EUR 72,250.08 in fines.

	EUR	EUR	Prior year	
			EUR k	EUR k
7. Personnel expenses				
a) Wages and salaries	19.378.253,53		18.427	
b) Social security and other pension costs (of which old-age pensions EUR 3,983,770.13)	7.716.037,90	27.094.291,43	5.652	24.079
8. Project expenses				
a) Aid provided by Caritas international	67.493.722,19		68.132	
b) Domestic projects	42.721.605,23	110.215.327,42	37.168	105.300
9. Amortization of intangible assets and depreciation of property, plant and equipment		1.726.656,09		1.822
10. Other operating expenses				
a) Rents and leases	376.387,89		389	
b) Energy, water, sewage	306.182,47		304	
c) Insurance, fees and levies	362.742,87		265	
d) Membership fees	240.754,43		239	
e) Repairs and maintenance	2.690.154,95		1.447	
f) Public relations	2.467.309,57		2.522	
g) Travel expenses	1.033.396,79		953	
h) Freight-out, packaging	108.682,06		102	
i) Expenses from the disposal of fixed assets	10.294,37		0	
j) Fees	1.413.381,53		1.054	
k) Third-party services	2.551.076,24		2.635	
l) Postage	1.461.106,72		1.371	
m) Other administrative expenses	1.031.997,48		1.067	
n) Consulting and auditing fees	377.671,72		425	
o) Subsidies paid to third parties	507.547,54		492	
p) Exchange rate losses on securities	57.377,89		175	
q) Other expenses	4.228.977,46		5.326	
r) Incidental personnel expenses	250.498,19	19.475.540,17	229	18.995
11. Income from equity investments (thereof from affiliated companies: EUR 55,394.68 prior year: EUR 899,063.57)		55.394,68		899
12. Income from other securities and loans carried under financial assets		1.595.328,42		959
13. Other interest and similar income		2.957.531,45		2.214
14. Amortization of financial assets and securities classified as current assets		647.181,80		729
15. Interest and similar expenses (thereof from unwinding the discount EUR 137,221.78; prior year: EUR 283,725.78)		217.576,97		404
16. Other taxes		156.928,86		146
17. Net loss for the year		-350.881,69		-1.444
18. Withdrawals from reserves		428.065,66		1.304
19. Additions to the reserves		0,00		-1.150
20. Retained earnings (prior year: accumulated loss)		+ 77.183,97		- 1.290

**Deutscher Caritasverband e. V.
Freiburg im Breisgau**

**Notes to the Financial Statements
for the Fiscal Year from 1 January to 31 December 2016**

1. General Information

Deutscher Caritasverband e.V. (DCV) is a national association and representative of the various Catholic Caritas associations in Germany, and recognized by German bishops. As an association of voluntary care-givers, DCV devotes its energies to performing social work and providing charity.

The Association was founded in 1897 and is organized as a registered association (District Court of Freiburg im Breisgau, VR 570) with its head office in Freiburg im Breisgau.

The financial statements have been prepared in accordance with the provisions of **German commercial law applying to businesses** (Secs. 242 to 256a HGB [“Handelsgesetzbuch”: German Commercial Code] and the supplementary provisions applying to stock corporations. The financial statements were complemented by notes to the financial statements and management report, which were prepared voluntarily. The consequences of the legal form and the required deviations [from the standard HGB classification] are indicated in the classification of the income statement. Any other deviations to the reporting requirements pertaining to stock corporations are commented on in the following sections.

2. Accounting and Valuation Methods

The balance sheet has been prepared using the horizontal T-form in accordance with Sec. 266 (1) HGB. The classification is based on Sec. 266 (2) and (3) HGB. However, where the legal form of the Association requires it, additional line items were added in accordance with Sec. 265 (5) HGB.

Changes to the HGB provisions due to the BilRUG [“Bilanzrichtlinie-Umsetzungsgesetz”: Act to Implement the European Accounting Directive] were adopted for the first time in the reporting year. The changes relate to the application of the new classification scheme for the income statement and reclassifications from Investment income and Sales, events, and other items to the line item Revenue. In addition, there were reclassifications from Other operating expenses to the line item Cost of materials. Due to the change in the form of presentation from the T-format to the vertical format and the addition of numerous new line items, as well as the renaming and deletion of other line items, the presentation and classification of the income statement does not correspond to the prior year. For this reason, the figures of the prior year were adjusted to the presentation format and classification of the reporting year to enable comparison. As a result of these adjustments and for reasons of clarity, no list has been made of all the reclassifications in these notes.

The recognition and measurement policies applied to the assets and liabilities presented in the financial statements correspond to those applied in the prior year with the exception of a change in the measurement of pension provisions.

ASSETS

Intangible assets and **property, plant and equipment** are measured at cost including any non-deductible input tax and less any scheduled depreciation and amortization and impairment losses.

Depreciation and amortization is recorded using the straight-line method over the customary useful life of the asset.

Intangible assets	20 - 33.3	%
Buildings and structures	2 - 5	%
Other equipment, fixtures and fittings	10 - 25	%

As in the prior year, no impairment losses were recorded in the reporting year. The project assets funded by donations and subsidies are written off in full in the year of acquisition.

Low-value assets are accounted for in the commercial balance sheet in accordance with the tax treatment laid out in Sec. 6 (2) EStG [“Einkommensteuergesetz”: German Income Tax Act]. Depreciable moveable fixed assets that can be used independently and whose historical costs net of any input tax do not exceed EUR 410 are fully expensed in the year of acquisition. Their immediate disposal is assumed.

Investment subsidies (where not project-related) are collected without affecting profit or loss and reported as a special item on the credit side of the balance sheet as subsidies to finance property, plant and equipment. The special items are released on a pro rata temporis basis in line with the use of the subsidized asset. If they relate to land, they are released at 4% p.a. over the fixed interest period set by the provider of the subsidy. In fiscal year 2016 income from the release of the special item amounted to EUR 251k (prior year: EUR 251k).

Equity investments are measured at cost or a notional value. They are written down to net realizable value even if impairment is likely to be only temporary. If the reasons for an impairment that was recorded in prior years no longer apply, the assets are written up accordingly.

Equity investments that were acquired prior to 1 January 2010, are written down to a notional value of EUR 1.00. Up until fiscal year 2009, impairments recorded on these equity investments in accordance with Sec. 253 (4) HGB (prior to BilMoG [“Bilanzrechtsmodernisierungsgesetz”: German accounting law modernization act]) amounted to EUR 1,728k. These have been retained in accordance with Art. 67 (4) EGHGB [“Einführungsgesetz zum Handelsgesetzbuch”: Introductory Law of the German Commercial Code]. The impairment losses were recorded at a time when the financial statements were compiled solely in keeping with the legal requirements applying to businesses. Recording and retaining these impairment losses corresponds to the laws applying to DCV. To this extent, the accounting laws applying to stock corporations, which do not require these impairments pursuant to Sec. 253 (4) HGB (prior to amendment), were not applied.

Other than above, no other impairments were required on other equity investments to write them down to net realizable value.

Equity investments were as follows:

Entity	Share capital	of which paid in	Shareholding		Equity	Net profit or loss	Book value
			31 Dec 2016		31 Dec 2015	31 Dec 2015	31 Dec 2016
	EUR	EUR	%	EUR	EUR k	EUR k	EUR
Bauverein Breisgau e.G., Freiburg		620.00		620.00		1)	1.00
BEGECA Beschaffungsgesellschaft mbH für kirchliche, caritative und soziale Einrichtungen, Aachen	743,418.39	38,346.89	5.2	38,346.89	733	226	1.00
ECCLESIA Holding GmbH, Detmold	273,000.00	126,400.00	46.3	126,400.00	252,177	25,373	1.00
Gesellschaft für Anstaltskredit mbH, Köln	1,010,000.00	1,010,000.00	100.0	1,010,000.00	1,934	7	1.00
Immobilien und Verwaltungs-GmbH, Freiburg	50,000.00	50,000.00	100.0	50,000.00	68	0	1.00
Katholische Hochschule Freiburg Gemeinnützige Gesellschaft mit beschränkter Haftung, Freiburg	52,000.00	10,400.00	20.0	10,400.00	9,491	298	175.16
KNA Kath. Nachrichtenagentur GmbH, Bonn	687,100.00	39,000.00	5.7	39,000.00	738	0	504.97
Lambertus-Verlag GmbH, Freiburg	317,550.00	317,550.00	100.0	317,550.00	3,874	255	1.00
Volksbank Freiburg e.G., Freiburg		520.00		520.00		1)	1.00
Werthmannhaus Unterstützungs-GmbH i.L., Freiburg	25,564.59	25,564.59	100.0	25,564.59	41	0	1.00
WIBU Wirtschaftsbund sozialer Einrichtungen e.G., Ahrensburg		16,885.00		16,885.00	23,359	2,987	1.00
Wohlfahrtsgesellschaft Gut Hellberg mbH, Ettlingen	50,000.00	25,000.00	50.0	25,000.00	6,039	344	1.00
proCum Cert GmbH, Frankfurt	230,000.00	30,667.00	13.3	30,667.00	303	-6	17,601.00
LIGA Bank e.G., Regensburg		2,500.00		2,500.00		1)	1.00
Pax-Bank e.G., Köln		256,250.00		256,250.00	83,906	3,011	250,001.00
Wirtschaftsgesellschaft der Kirchen in Deutschland mit beschränkter Haftung (WGKD), Hannover	25,000.00	5,000.00	20.0	5,000.00	1,617	112	1.00
HGK Hotel- und Gastronomie-Kauf e.G., Stuttgart		1,250.00		1,250.00		1)	1,250.00
Aktionsbündnis Katastrophenhilfe GbR, Wiesbaden	20,000.00	5,000.00		5,000.00			5,000.00
Bank im Bistum Essen eG, Essen		25,200.00		25,200.00		1)	25,200.00
		1,986,153.48		1,986,153.48			299,744.13

1) Due to the small scope of the investments, no disclosures have been made on shares in cooperatives.

2) Consolidated financial statements

The financial statements and the consolidated financial statements of the equity investments as of 31 December 2016 were not available as of the date these financial statements were prepared.

Securities classified as fixed assets are presented at the lower of cost or net realizable value, whereby an impairment loss is recorded even if the impairment is expected to be only temporary. When the reasons for an impairment recorded in prior years no longer apply, the asset is written up again but not beyond its historical cost.

Other loans have been valued at nominal value.

The breakdown and development of the individual fixed asset items is presented in the **statement of changes in fixed assets** (as an integral component of these notes).

Where the book value of a fixed asset calculated on the basis of the above accounting policies is above its net realizable value on balance sheet date, it is written down to net realizable value by recording an impairment loss. If the impairment loss no longer applies in subsequent fiscal periods, the impairment loss is reversed by an appropriate amount to reflect the increase in fair value, provided that the revaluation does not exceed amortized cost.

Inventories are recorded at the lower of cost plus any (share in) non-deductible input tax or market value. Incidental costs of acquisition and other price reductions (such as discount received and rebates) are deducted from cost. The balance of charity stamps is presented at its postage value.

As in the prior year, a fixed value of EUR 16k has been set for canteens and Caritas Tagungszentrum (CTZ – Caritas conference centers).

Inventories break down as follows:

	31 Dec 2016	31 Dec 2015
	EUR	EUR
Raw materials, consumables and supplies	48,283.61	41,328.17
Merchandise	23,361.78	41,929.61
	71,645.39	83,257.78

Receivables and other assets are stated at their nominal value or the lower realizable value at the balance sheet date.

The risks of bad debts are generally considered by recognizing a general valuation allowance of 3% on the net balance of receivables and also by means of specific doubtful debt allowances.

Receivables from entities in which an equity investment is held consist entirely of trade receivables.

Other assets consist of accrued interest of EUR 806k (prior year: EUR 1,625k), legal title to which arises after balance sheet date.

All receivables and other assets are due within one year.

Securities classified as current assets are valued at the lower of cost or net realizable value.

Cash on hand, Bundesbank balances and bank balances are presented at their nominal value. Bank balances held at the same bank as liabilities to banks are presented net when they can be offset against each other.

Transactions in **foreign currencies** are recorded at the rate prevailing on the date of entry. Assets and liabilities denominated in foreign currency are measured at the mean spot rate on the closing date taking account of the imparity principle (higher of cost or market for liabilities and lower of cost or market for assets) and the realization principle for long-term items. Unrealized exchange rate gains are recognized through profit and loss if the related instruments have a term of less than one year.

Prepaid expenses relate to expenditures made before balance sheet date for expenses incurred in following periods.

Please see the comments on the provision for phased retirement obligations for more information on the **debit difference from offsetting plan assets**.

EQUITY AND LIABILITIES

Equity developed in 2016 as follows:

	Association assets	Assistance funds	Reserves	Retained earnings/ acc. loss	Total
	EUR	EUR	EUR	EUR	EUR
1 January 2016	11,128,519.89	57,601,053.74	32,053,151.07	-1,289,893.99	99,492,830.71
Retained earnings of 2015 offset	889,348.46	-2,179,242.45	0.00	1,289,893.99	0.00
Drawings from reserves as of 31 December 2016	0.00	0.00	-428,065.66	428,065.66	0.00
Additions to reserves as of 31 December 2016	0.00	0.00	0.00	0.00	0.00
Net loss for the year 2016	0.00	0.00	0.00	-350,881.69	-350,881.69
31 December 2016	12,017,868.35	55,421,811.29	31,625,085.41	77,183.97	99,141,949.02

The retained earnings reported as of 31 December 2016 (prior year: an accumulated loss) contains profit brought forward of EUR 428k (prior year: a profit brought forward of EUR 154k).

Discounting the provisions for pensions using the average market rate for the last ten years (prior year: the last seven years) results in a difference of EUR 564k as of the reporting date. This amount is banned from distribution by Sec. 253 (6) Sentence 2 HGB.

The **special purpose funds** were reported in a separate line item on account of their materiality. They consist of subsidies earmarked for certain projects, donations received for certain aid projects and other funds as well as income from the temporary investment of these funds.

Provisions are recognized at the settlement amount of the related obligation, measured prudently.

Pension provisions are calculated in accordance with actuarial principles at "Teilwert" as defined in the German Income Tax Act and using the 2005G mortality tables issued by Prof. Dr. Heubeck. When calculating the interest rate, a distinction was first made between employees holding pension entitlements, which have a residual term of 15 years, applying the alternative accounting treatment defined in Sec. 253 (2) Sentence 2 HGB, and pensioners with an average duration of seven years.

Thereafter the obligations were discounted pursuant to Sec. 253 (2) HGB using the discount rate published by the German Federal Bank [Deutsche Bundesbank] in December 2016 for instruments of an equivalent term. An interest rate of 3.33% was applied to obligations to pensioners and a rate of 4.01% to employees holding pension entitlements. Moreover, wage and salary trends and pension trends of 2.5% p.a. were also considered. Employee churn was not considered. For the first time the discount rate used in 2016 is based on the average market rate as calculated by the Deutsche Bundesbank for the past ten years of 4.01% for obligations towards employees with vested rights and 3.33% for obligations towards pensioners (prior year: average interest rate over the last seven years of 3.89% and 3.09% respectively) in accordance with the amendments to Sec. 253 (2) Sentence 1 HGB. Discounting pension provisions to 31 December 2016 using the average market interest rate of the past ten years in comparison to the average market rate over the last seven years results in a reduction of the pension provision (measurement change) of EUR 564k.

The Association has an **indirect liability to cover the obligations of the pension plan** managed by the KZVK ["Kirchliche Zusatzversorgungskasse": Church Supplementary Pension Fund], Cologne, if there is any funding deficit.

Provisions for indirect pension obligations of EUR 3,485k (prior year: EUR 1,634k) were created to cover the vested rights of employees earned prior to the change in the funding of the Abrechnungsverband S pension plan of KZVK, which switched to a capital-funded plan effective 1 January 2002, as the plan assets held by KZVK were not sufficient to meet the corresponding obligations (funding deficit). To this extent, the alternative treatment allowed by Sec. 28 (1) Sentence 2 EGHGB ["Einführungsgesetz zum Handelsgesetzbuch": Introductory Law of the German Commercial Code] was exercised. The provision was recognized to cover the secondary liability pursuant to Sec. 1 (1) Sentence 3 BetrAVG ["Gesetzes zur Verbesserung der betrieblichen Altersversorgung": Law on improving company pensions]. However, this has not yet become manifest. Consequently there is no direct (immediate) obligation on DCV to meet the funding deficit. The funding deficit should be remedied by KZVK by levying an annual fixed financing contribution until the year 2040. To measure the indirect pension obligations, the net present value of the financing contributions expected to be levied over this entire period was taken as the best estimate of the economic burden. However, the indirect pension obligations as of 31 December 2016 were not recognized in full, only partly, as is permitted. Provisions were only recognized for indirect pension obligations towards employees who had left DCV in 2008 or earlier.

The provisions were calculated on the basis of the financing contributions allocable to these employees, derived as the difference in the present value between the value of the obligations measured in accordance with Art. 63a of the Articles of KZVK and measured in accordance with the rules of the Altersvorsorge-TV-Kommunal (ATV-K) regulation for public sector employees. For the net present value calculation DCV applied a discount rate as defined by Sec. 253 (2) HGB using an average residual term of 12 years for the indirect pension obligations. The following parameters were used in the net present value calculation of indirect pension obligations:

	31 Dec 2016	
	EUR k	%
Financing contribution used to measure the provision	224	
Financing contribution not considered in the measurement of the provision	191	
Percentage pursuant to § 63a (1), § 4 (3) of the articles of the fund (constant)		6,34
Discount rate		3,83
Attrition (due to deaths of plan participants)		0,00

On the basis of the above parameters, the indirect pension obligations not covered by provisions amount to EUR 2,974k as of 31 December 2016. These relate to employees still in active service and those who have left DCV since 2008.

In the prior year, the provisions for indirect pension obligations were estimated on the basis of the information available at the time. The estimate as of 31 December 2015 was made on the basis of the share in the net deficit not covered by equity reported in the financial statements of KZVK as of 31 December 2014 allocable to "Abrechnungsverband S" and after offsetting the share in the hidden reserves contained in the capital investments. The provision was recognized at the share attributable to DCV of this modified net deficit not covered by equity from 2014, the relationship of restructuring funds from 2014 attributable to DCV in the total 2014 restructuring fund applied by KZVK. A comparable calculation as of 31 December 2016 was not performed as the measurement was unchanged, merely the estimates used as inputs, and, secondly, from today's perspective, the inputs used in the prior year do not offer a comparably reliable estimate to the estimate using the financing contributions. In retrospect, the estimates used in the measurement of the provisions for indirect pension obligations as of 31 December 2015 resulted in the indirect pension obligations only being partially recognized as well.

Other provisions break down as follows:

	31 Dec 2016 EUR	31 Dec 2015 EUR
Vacation accrued/flexi time	1,126,028.97	1,402,081.00
Healthcare assistance	457,000.00	927,000.00
Supplementary assistance program	550,000.00	550,000.00
Obligations towards the youth homesfind/Foundation "Anerkennung und Hilfe"	652,121.50	537,500.00
Fire prevention measures	0.00	394,653.67
Employees of the Catholic University	446,000.00	337,000.00
Consulting and audit fees	158,000.00	249,724.70
Repairs and maintenance for property	178,923.63	191,484.80
Other personnel costs	170,651.20	159,885.60
Other	243,600.00	217,100.00
	3,982,325.30	4,966,429.77

Other provisions also include provisions to cover the obligations for assuming the costs of the supplementary aid system for victims of sexual abuse. The provision was recognized on the basis of an agreement with the Federal Ministry for Family Affairs, Senior Citizens, Women and Youths (BMFSFJ). The provision is based on an estimate of the number of cases and the agreed maximum payment. The actual settlement could differ if the matter develops differently.

The provision to provide healthcare assistance to employees and pensioners was measured at the net present value of the annual insurance premiums, which were calculated in accordance with the tax provisions of the Bewertungsgesetz (Valuation Act). Employees hired prior to 1998 have a life-long right to healthcare assistance. This right is based on the AVR (Exhibit 11). DCV has taken out insurance for its healthcare assistance obligations.

As in the prior year, as of 31 December 2016, the tax legislation was applied by analogy and capital factors calculated on the basis of the 2009/2011 mortality tables published by the Federal Office of Statistics. In addition, an assumption was made that insurance premiums will stay constant. There are uncertainties associated with the calculation of provisions. The actual amount of the settlement might differ if there is any deviation from the underlying assumptions.

A provision was recognized for **phased retirement plans** ("Altersteilzeitverträge") already agreed on as of the balance sheet date. It contains the step-up amounts required by the agreements and the performance obligations accumulated by the balance sheet date. The provision was valued based on a market interest rate of 1.97% for instruments of equivalent terms. Moreover, wage and salary increases of 2.5% p.a. were considered.

The provision for phased retirement obligations amounted to EUR 193k (prior year: EUR 302k) as of the reporting date. The provision was offset against the plan assets in accordance with Sec. 246 (2) Sentence 2 HGB, whose fair value and acquisition cost each came to EUR 430k (prior year: EUR 430k). The plan assets consist of dedicated current account deposits at banks denominated in euro that are pledged to the beneficiaries and protected from the claims of other creditors in the event of insolvency. The remaining balance of EUR 237k was recognized under assets as a **debit difference from offsetting plan assets**. No interest expenses have been offset against interest income.

With the exception of pension provisions and the provision for the healthcare assistance (“Beihilfe”), provisions with a residual term of more than one year were discounted at the average market interest rate of financial instruments with an equivalent term over the past seven fiscal years.

The residual terms of **liabilities** as defined by Sec. 268 (5) HGB and Sec. 285 No. 1 and 2 HGB can be seen in the following schedule:

Balance sheet item	Due in			Total	of which secured by liens or other rights
	up to 1 year	1 to 5 years	more than 5 years		
	EUR	EUR	EUR	EUR	EUR
1. Liabilities to banks	919,281.02	1,509,446.38	1,084,331.09	3,513,058.49	3,513,058.49
<i>prior year</i>	<i>(1.471.225,33)</i>	<i>(2.400.576,45)</i>	<i>(1.384.183,62)</i>	<i>(5.255.985,40)</i>	<i>(4.980.805,08)</i>
2. Trade payables	2,908,101.43	0.00	0.00	2,908,101.43	0.00
<i>prior year</i>	<i>(2.388.244,13)</i>	<i>(0,00)</i>	<i>(0,00)</i>	<i>(2.388.244,13)</i>	<i>(0,00)</i>
3. Liabilities to companies in which an equity investment is held	51,236.31	0.00	0.00	51,236.31	0.00
<i>prior year</i>	<i>(80.723,25)</i>	<i>(0,00)</i>	<i>(0,00)</i>	<i>(80.723,25)</i>	<i>(0,00)</i>
4. Other liabilities	10,135,916.60	25,225.92	350,561.41	10,511,703.93	0.00
<i>prior year</i>	<i>(9.254.475,86)</i>	<i>(25.225,92)</i>	<i>(358.713,59)</i>	<i>(9.638.415,37)</i>	<i>(0,00)</i>
	14,014,535.36	1,534,672.30	1,434,892.50	16,984,100.16	3,513,058.49

Liabilities to banks of EUR 2,200k are secured by mortgages and EUR 1,313k by collateral assignment of current securities.

Liabilities to entities in which an equity investment is held consist entirely of trade payables.

Trade payables are subject to the customary clauses retaining title to the delivered items.

Other liabilities include tax liabilities amounting to EUR 935,797.92 (prior year: EUR 840k) and sundry other liabilities of EUR 9,575,906.01 (prior year: EUR 8,798k).

Deferred income relates to payments received before balance sheet date for income in following periods.

3. Notes to the Income Statement

The presentation and classification of the income statement were adjusted in the reporting year to meet the amendments to HGB introduced by BilRUG.

Due to the redefinition of revenue found in Sec. 277 (1) HGB by the introduction of BilRUG, income that was formerly reported under Investment income and Sales, events and other items, is now reported under the line item Revenue. The figures for the prior year have been adjusted by reclassifications of EUR 3,827,491.26 and EUR 12,205,059.87, respectively, to allow comparison. In addition, expenses reported under other operating expenses in the prior year were reclassified to cost of materials as the corresponding expenses qualify as the cost of goods sold. Corresponding reclassifications of the prior year figures came to EUR 8,343,500.92.

In contrast to the prior year, the income statement has been presented using the **vertical format**. In the prior year, the income statement was prepared in the **horizontal account format**, contrary to the format required by Sec. 275 HGB, to aid the clarity of presentation.

Income and expenses have been accounted for on an **accrual** basis.

Until they are used **donations** are presented under a special line item in the balance sheet, **Special purpose funds from unused donations**.

The release of this item is presented under **Income from use of donations** in accordance with the expenses incurred for which they are earmarked as required by the statutes. This item is therefore composed of the donations received in the fiscal year plus the utilization of donations received in prior years less any donations received but not used in the period.

The presentation corresponds to the requirements of the **Accounting Practice Statement for Organizations Collecting Donations** issued by the IDW (IDW AcPS HFA 21).

The **special purpose funds** held by headquarters and its representative offices developed as follows in 2016:

	Funds		Change EUR k
	outflow EUR k	inflow EUR k	
Federal subsidies	77,522	75,404	-2,118
Donations	36,359	30,543	-5,816
Other funds	21,328	27,598	6,270
Total	135,209	133,545	-1,664

The change in the line item in the balance sheet, **C.2. Special purpose funds from unused donations** is reflected in line item **1.a)** (prior year II.1.) **Donation income / Change in special purpose funds from unused donations**, while the change in other special purpose funds in 2016 of EUR 965k is reported under line item 1b) Change in special purposes funds from unused inheritances and of EUR 3,188k under line item 2.e) Change in special purpose funds from unused subsidies. In the prior year, these changes in the line item for special purpose funds were reported in one sum under VII. Expenses from additions to special purpose funds (excluding donations).

The sum of the Change in special purpose funds from unused inheritances in line item 1.b) and the Change in special purpose funds from unused subsidies in line item 2.e) totaling EUR -4,152k is reflected in the balance sheet in the sum of the changes in C.1 Special purpose funds from federal subsidies and C.3 Special purpose funds from other funds.

An amount of EUR 3,224k of the donations received in 2016 (prior year: EUR 3,243k) were earmarked for the Kinderhilfe Bethlehem program, Lucerne, Switzerland. Of this amount EUR 3,097k (prior year: EUR 3,190k) were passed on to Kinderhilfe Bethlehem, Lucerne, Switzerland, in 2016.

Donations received in kind of EUR 7k (prior year: EUR 9k) were recognized at a conservative measurement of their fair value or in accordance with tax legislation at book value if the assets were taken over from the operating assets of the donor.

The line item **Inheritances, gifts and other grants** includes funds received from wills and testaments of EUR 7,328k (prior year: EUR 2,548k) and penal fines of EUR 72k (prior year: EUR 146k).

The line item **subsidies** contains subsidies received from Verband der Diözesen Deutschlands (Association of German Dioceses – VDD) and individual bishoprics, the federal government and other sources. As there is no exchange of goods or services, these grants qualify as genuine subsidies in the sense of Sec. 10.2 (7) of the Decree on the Application of VAT Law (“Umsatzsteuer-Anwendungserlass”). Due to their significance for the result of operations of the Association, the subsidies are not presented under other operating income but in a separate line item, as in the prior year.

Investment income of EUR 55k (prior year: EUR 899k) is presented under line item 11. This was presented under line item IV. Investment income in the classification scheme used in the prior year.

Interest income and gains on sale totaling EUR 3,023k (prior year: EUR 2,867k) from the temporary investment of special purpose funds were used during the year to fund special purpose projects and to finance the operating budget during the year. In sum donations-funded projects earned interest of 1.91% (prior year: 1.84%).

The cash accounting used by the Association makes it possible to present the use of special purpose funds received from donations and subsidies for the various projects. **Project expenses** are therefore presented separately in the income statement.

Significant **income from other periods** recognized in 2016 results from the reversal of provisions totaling EUR 1,142k (prior year: EUR 550k), income from the disposal of fixed assets of EUR 702k and the reimbursement of the restructuring funds of EUR 1,458k by KZVK for the years 2002 to 2014 plus associated interest of EUR 407k.

Expenses from other periods, which would be material to an assessment of the result of operations, were not incurred in 2016.

According to the statement of changes in fixed assets, **Amortization of intangible assets and depreciation of property, plant and equipment** amount to EUR 1,935k (prior year: EUR 2,312k) of which EUR 208k (prior year: EUR 490k) relates to assets that are allocated to projects. Consequently, this portion of depreciation and amortization is reported under **Project expenses** rather than **Depreciation and amortization**.

Write-downs of financial assets and securities classified as current assets include impairment losses of EUR 87k (prior year: EUR 246k) to write financial assets down to net realizable value in accordance with Sec. 253 (3) Sentence 3 and 4 HGB.

Interest and similar expenses includes interest expenses of EUR 124k (prior year: EUR 269k) from unwinding discounted long-term pension provisions and interest expenses of EUR 13k (prior year: EUR 15k) from unwinding other discounted provisions.

Fees of EUR 112k (prior year: EUR 113k) were agreed on for the **audit of the financial statements** plus 19% VAT (Sec. 285 No. 17 HGB) for 2016. Of this amount, EUR 75k (prior year: EUR 75k) relates to the audit of the entire financial reporting of the Association and additional work required by the engagement in the form of attestation services of EUR 8k (prior year: EUR 8k) plus VAT of 19% in each case.

Other taxes of EUR 157k (prior year: EUR 146k) are presented under a separate line item (No. 16). In the prior year, other taxes were presented under II. Other operating expenses (line item 3. Tax, insurance, fees and levies).

4. Related Party Transactions

Insurance premiums of EUR 141k (prior year: EUR 99k) were charged from related parties in 2016 and an amount of EUR 495k (prior year: EUR 402k) was billed for administrative services. Moreover, subsidies of EUR 235k (prior year: EUR 138k) were granted to related parties.

DCV invoiced related parties for EUR 961k (prior year: EUR 1,044k) for the rent of buildings, primarily training and academy rooms, plus incidental expenses. In addition, related parties were billed EUR 246k (prior year: EUR 193k) for the use of personnel and EUR 113k (prior year: EUR 118k) for licenses.

No other significant transactions were conducted with related parties in 2016.

5. Disclosures on Shares in Investment Funds pursuant to Sec. 1 (10) KAGB

	Book value 31 Dec 2016 EUR m	Market value 31 Dec 2016 EUR m	Hidden reserves EUR m	Dividend distribution EUR m	Daily return is possible
LWH shares	37.0	38,9	1,9	0,85	yes
LWH bonds	54.8	57,5	2,7	1,12	yes

As of the reporting date, Deutsche Caritasverband e.V. holds more than 10% of the shares in special purpose investment funds pursuant to Sec. 1 (10) KAGB.

The shares relate to special investment funds issued by BNY Mellon Service Kapitalanlagegesellschaft, Frankfurt am Main: LWH Fonds Aktien (shares) and LWH Fonds Renten (bonds). The investment funds are securities with an international investment focus. The fiscal year of the funds begin on 1 October of a given year and ends on 30 September of the following year.

6. Extraordinary Income and Expenses

Extraordinary income of EUR 1,457,871.73 from the reimbursement of the restructuring funds by KZVK plus interest of EUR 407,560.71 was received in the fiscal year that is reported under other operating income and other interest and similar income.

This was countered by extraordinary expenses of EUR 1,851,000 incurred for the addition to the provision for indirect pension obligations, which are reported under personnel expenses (social security and other pension costs). In addition, extraordinary expenses of EUR 1,198,523.57 were incurred for construction to install fire safety measures and improve the energy balance of property, which are reported under other operating expenses.

7. Other Disclosures

The members of the **management board** in 2016 were:

1	President	Prelate Dr. Peter Neher
2	General Secretary	Prof. Dr. Georg Cremer
3	Director of Finance and HR	Hans Jörg Millies

Please see Exhibit 5 (which is an integral component of these notes) for the composition of the **Caritas Council**.

Total remuneration paid to the board (including incidental income and fringe benefits excluding the employer's share of social security and other social levies and fringe benefits) amounted to EUR 419k (prior year: EUR 413k).

This breaks down to the individual members of the board as follows:

	EUR k
Prelate Dr. Peter Neher, Präsident	139
Prof. Dr. Georg Cremer, General Secretary	140
Hans Jörg Millies, Director of Finance and HR	140
Total remuneration of the management board (including incidental income, excluding the employer's share of social security and other social levies)	419

Pension payments to former members of the management board amounted to EUR 176k in 2016 (prior year: EUR 161k).

Provisions for pension obligations towards former members of the management board were recognized at an amount of EUR 1,654k (prior year: EUR 1,627k).

Other financial obligations for rental obligations, contracts for services and maintenance agreements, which are of significance for an assessment of the financial position, came to EUR 2,038k as of the reporting date (prior year: EUR 2,643k).

The number of full-time **employees** on 31 December 2016 (in full-time equivalents) came to 358 (prior year: 330).

Not expressed in full-time equivalents, the annual average headcount in 2016 came to 436 (prior year: 413) excluding members of the management board, trainees and interns.

8. Subsequent Events

Since the end of the fiscal year, there have been no significant events requiring reporting.

Freiburg im Breisgau, 16 May 2017

Prelate Dr. Peter Neher
President

Prof. Dr. Georg Cremer
General Secretary

Hans Jörg Millies
Finance and
Human Resources

Statement of Changes in Fixed Assets
of Deutscher Caritasverband e.V., Freiburg im Breisgau,
in Fiscal Year 2016

	Historical cost				31 Dec 2016 EUR
	1 Jan 2016 EUR	Additions EUR	Reclassi- fications EUR	Disposals EUR	
I. Intangible assets					
Concessions, industrial rights and similar rights and assets and licenses in such rights and assets acquired for a consideration	1.387.411,51	29.779,42	0,00	10.621,04	1.406.569,89
II. Property, plant and equipment					
1. Land, land rights and buildings	58.901.386,01	146.460,82	78.684,46	158.525,84	58.968.005,45
2. Other equipment, furniture and fixtures	11.976.229,66	884.816,38	0,00	859.309,47	12.001.736,57
3. Assets under construction	251.143,23	438.070,90	-78.684,46	0,00	610.529,67
	<u>71.128.758,90</u>	<u>1.469.348,10</u>	<u>0,00</u>	<u>1.017.835,31</u>	<u>71.580.271,69</u>
III. Financial assets					
1. Equity investments and cooperative shares	2.027.825,43	0,00	0,00	0,00	2.027.825,43
2. Securities classified as fixed assets	79.728.485,39	8.213.325,05	266.600,38	8.578.347,60	79.630.063,22
3. Other loans	13.003,60	0,00	0,00	8.433,20	4.570,40
	<u>81.769.314,42</u>	<u>8.213.325,05</u>	<u>266.600,38</u>	<u>8.586.780,80</u>	<u>81.662.459,05</u>
	<u>154.285.484,83</u>	<u>9.712.452,57</u>	<u>266.600,38</u>	<u>9.615.237,15</u>	<u>154.649.300,63</u>

^{*)} Reclassifications refer to current assets

Accumulated depreciation and amortization						Book value	
1 Jan 2016	Additions	Reclassi- fications	Write- ups	Disposals	31 Dec 2016	31 Dec 2016	31 Dec 2015
EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
1.343.263,10	33.652,05	0,00	0,00	10.556,04	1.366.359,11	40.210,78	44.148,41
31.083.208,89	1.222.434,56	0,00	0,00	148.298,00	32.157.345,45	26.810.660,00	27.818.177,12
10.387.559,33	678.790,63	0,00	0,00	847.014,28	10.219.335,68	1.782.400,89	1.588.670,33
0,00	0,00	0,00	0,00	0,00	0,00	610.529,67	251.143,23
41.470.768,22	1.901.225,19	0,00	0,00	995.312,28	42.376.681,13	29.203.590,56	29.657.990,68
1.728.081,30	0,00	0,00	0,00	0,00	1.728.081,30	299.744,13	299.744,13
40.404,83	78.828,43	262.582,59	271.414,53	0,00	110.401,32	79.519.661,90	79.688.080,56
0,00	0,00	0,00	0,00	0,00	0,00	4.570,40	13.003,60
1.768.486,13	78.828,43	262.582,59	271.414,53	0,00	1.838.482,62	79.823.976,43	80.000.828,29
44.582.517,45	2.013.705,67	262.582,59	271.414,53	1.005.868,32	45.581.522,86	109.067.777,77	109.702.967,38

Members of the Caritas Council

Title	First name	Name	Function
Prelate Dr.	Peter	Neher	President of DCV e.V., Chairman ²⁾
Brother	Peter	Berg	Member of the extended management board of DOK
Dr.	Matthias	Berger	Chairman Finance Commission ¹⁾
	Stephan	Buttgereit	General Secretary of SKM-Katholischer Verband für Soziale Dienste in Deutschland-Bundesverband e. V.
Prof. Dr.	Georg	Cremer	General Secretary of DCV e. V. ²⁾
	Heinz	Dargel	Managing Director of CV Dekanat Bremen-Nord e.V.
	Egon	Engler	Chairman of CV Freiburg Stadt e.V. (until 12 October 2016)
	Hartmut	Fritz	(until 12 October 2016)
	Katrin	Gerdsmeier	Head of the Berlin office of DCV e.V. ³⁾
	Gaby	Hagmans	Vice President of DCV e.V. (since 12 October 2016)
Dr.	Hanno	Heil	Chairman of VKAD e.V.
Canon	Bruno	Heller	Director of the Bishopric of Erfurt (Bistum Erfurt e.V.) (until 12 October 2016)
Dr.	Frank Johannes	Hensel	Director of DiCV Köln e.V.
	Regina	Hertlein	Chairman of the Board of CV Mannheim e. V. (since 12 October 2016)
	Renate	Jachmann-Willmer	Federal manager of SKF e.V.
	Heinz-Josef	Janßen	National Director Kreuzbund – Bundesverband e. V. (since 12 October 2016)
	Heinz-Josef	Kessmann	Vice President of DCV e.V.
Prof. Dr.	Ulrike	Kostka	Director of DiCV Berlin e.V. (since 12 October 2016)
Dr.	Wolfgang	Kues	Director of DiCV Würzburg e.V.
Dr.	Birgit	Kugel	Director of DiCV Trier e.V.
	Stefan	Leister	Deputy Chairman of the Board of BVKE
	Hans-Georg	Liegener	Director of CV für die Region Krefeld e. V.
Prelate	Hans	Lindenberger	Director of DiCV München und Freising e.V.
	Franz	Loth	Director of DiCV Osnabrück e.V.
Sister	Edith Maria	Magar	Vice President of DCV e.V. (until 12 October 2016)
	Johannes	Magin	Chairman of CBP e.V. (since 12 October 2016)
Dr.	Hejo	Manderscheid	Director of DiCV Limburg e.V.
Sister	M. Hildegard	Mels	Kongregation der Franziskanerinnen vom hl. Martyrer Georg zu Thuine (since 12 October 2016)

Title	First name	Name	Function
	Hans Jörg	Millies	Head of Finance and HR of DCV e.V. ³⁾
	Matthias	Mitzscherlich	Director of DiCV Dresden-Meißen e.V.
	Gerhard	Öhle	Director of DiCV Bamberg e.V.
Prelate	Bernhard	Piendl	Head of the main representative office Munich of DCV e.V. ³⁾
	Andreas	Rölle	Managing Director of CV Zwickau e.V.
	Burkard	Schröders	Director of DiCV Aachen e.V.
Dr.	Irme	Stetter-Karp	Vice President of DCV e.V.
Prelate	Wolfgang	Tripp	Director of DiCV Rottenburg-Stuttgart e.V. (until 12 October 2016)
	Thomas	Vortkamp	Managing Director of KKVD e.V. (until 12 October 2016)
	Karl	Prinz zu Löwenstein	Managing Director of Malteser Hilfsdienst e.V. (until 12 October 2016)

¹⁾ According to Art. 16 (6) of the Articles of DCV e.V. the Chairman of the Finance Commission chairs the meetings on matters defined in Art. 15 (2) over No. 4 -8, or if absent, the Deputy Chairman of the Finance Commission.

²⁾ According to Art. 16 (6) of the Articles of DCV e.V. the members of the Board do not have voting rights on points on the agenda defined in Art. 15 (2) No. 4-10 and 14.

³⁾ Advisory member pursuant to Art. 14 (5) of the articles of DCV e.V.

Management Report of Deutscher Caritasverband e. V. for the Fiscal Year from 1 January to 31 December 2016

Deutscher Caritasverband e. V. (DCV) is a national association and representative of the various Catholic Caritas associations in Germany, and recognized by German bishops. Together with its partners and members, it is dedicated to covering the entire spectrum of social and charity tasks. As the umbrella organization of the individual Caritas associations at federal level, Deutscher Caritasverband performs the functions of coordinating and representing the interests of the overall organization and developing its quality and structures. It is a not-for-profit organization and pursues the sole goal of furthering welfare and charitable aims.

1. Basic Developments

1.1 Developments in Social Policies and Politics

One of the most important socio-political reforms in the reporting year was the enactment of the Bundesteilhabegesetz [“Gesetz zur Stärkung der Teilhabe und Selbstbestimmung von Menschen mit Behinderungen, kurz Bundesteilhabegesetz”]: Law on fostering participation and self-determination by individuals with disabilities] which pursued the objective of tying the social inclusion of disabled individuals more closely to their self-determined participation. DCV was involved in the consulting process to prepare the new law and accompanied its course through parliament. In an extremely intensive political process, numerous improvements were made in the interests of individuals with disabilities and to secure the work of social welfare institutes and facilities.

In the Regelbedarfsermittlungsgesetz [Law on the minimum income needed to meet basic social and cultural standards] the federal government raised the minimum income for singles by EUR 5 from EUR 404 to EUR 409 per month, effective 1 January 2017. At a hearing of the parliamentary committee, Caritas was able to express its critique of the fundamentals of the calculation of minimum needs. In particular, we stated that the hidden poor were not taken out of the reference group used in the calculation and that the actual electricity needs of the recipients were not considered.

The federal government prepared the draft for the 5th Report on Poverty and Wealth. The DCV was entrusted with the management of the National Conference on Poverty (NAK) in 2016. This conference drafted a shadow report to the report drawn up by the federal government. The annual meetings of people with experience of poverty organized by the NAK should facilitate participation and political discussion.

Moreover, the latest data on school leavers without a “Hauptschulabschluss” (basic school leaving certificate) for 2016 were analyzed along with other socio-economic factors related to success at school. Nationwide, 5.7% of school-leavers did not graduate with a basic school leaving certificate in 2014 (2013: 5.6%). At county level, the rates ranged between 1.2% in Ansbach to 14% in Mansfeld-Südharz. The publication resulted in a great deal of local discussion. The goal is to make measurable improvements to the situation of disadvantaged youth.

Within the framework of the three-yearly Caritas initiative on demographic change, the 2016 annual campaign, which runs under the motto, “Mach dich stark für Generationengerechtigkeit” (equal rights for each generation) addressed the interaction between young and old as well as the social cohesion between the generations and within the generations. The campaign therefore concentrated on making political demands for equal rights for each generation. DCV provided the associations and members with materials, information and a website for the annual campaign and initiated a number of actions. In addition, the demographic change was a topic for the 2016 Caritas Congress that is held every three years.

Detailed information on the social and political activities of DCV over the course of 2016 can be found in the annual report published under the title, “*Einblicke in die Arbeit des Deutschen Caritasverbandes*” (a look inside the work of the German Caritas association) which can be found at www.caritas.de/Verbandszentrale.

1.2 Policies of the Association, Theology and Ethics

A concept was drawn up for the positioning of the headquarters to define its socio-ethical and bible-based-theological profile and the nature of the aid it grants. The goal is to integrate theological and ethical reflection in the existing processes and decision-making structures. To this end, the concept paper states the required skills, training measures, guidelines on the profile of positioning and the “7 Steps of Positioning” as an instrument to integrate the desired reflection.

After four years as a project, youngcaritas Deutschland will become firmly anchored in the tasks of the headquarters of DCV from 2017 onwards. Currently, there are full-time youngcaritas contact persons at 15 diocese Caritas Associations, the state Caritas Association of Oldenburg-Vechta and in 59 local Caritas Associations which offer young people the opportunity to get involved.

Schools are an important location for the campaigns. Three campaign portfolios with learning material have been created that have been ordered or downloaded many ten thousands of times by teachers, pupils and Caritas employees

The issue of refugees and migration was the most important point for getting involved both locally and at national level in 2016. To this end, three nationwide events were held, including the “we.confer – Barcamp zur Offenen Gesellschaft” in September 2016. Under the auspices of the “GemeinsamZeit” campaign a number of actions were undertaken by which young people, seniors, children or refugees spent time with each other. Together with Caritas international (Ci) donations were gathered under the campaign motto, “We collect bricks for Ethiopia”. Other calls for donations included “Coffee to help” and “One million stars”. At European level, youngcaritas is networked with youngcaritas in Austria, Switzerland, France, South Tyrol and Luxembourg via an Erasmus+ project.

At the 2015 assembly of delegates a roadmap for future dialogue and development of the associations for the coming five years was recommended to the members and associations. Since this date, numerous associations and members have been involved in the development process relating to the roadmap. In total, eleven events were held with the support of the project team and others are planned for 2017. Over 5,000 copies of the “Wegmarken” (roadmap) brochure have already been mailed out and over 300 copies of the newly developed “Caritas DialogBox”.

1.3 Caritas International (Ci)

2016 saw a sad anniversary: March marked the fifth year since the civil war started in Syria. The humanitarian situation in the country, which is now largely destroyed, continued to worsen. Ci is still one of the few aid organizations that is able to provide humanitarian aid in the country by itself. In addition, the focus of Syrian aid was also placed on the neighboring countries, Jordan and Lebanon, which, in addition to Turkey, have accommodated the majority of the refugees.

It is notable that the solidarity of donors with the people in Syria has not waned to any noticeable degree six years after the conflict started. Another focus of Ci's refugee work was on southern and southeastern Europe as well as northern Iraq.

In 2016 Ci put special focus on the issue of "forgotten humanitarian crises". The joint summer disaster relief campaign with the Diakonie addressed the situation of people in south Sudan under the motto, "The greatest disaster is to forget". Under the umbrella of the Federal Foreign Office and again in cooperation with the Diakonie, Ci initiated the disaster relief campaign "Basta ya" on the forgotten civil war in Colombia, which gained greater currency in light of the historic peace agreement between the government and the guerilla organization, FARC.

To continue enhancing effectiveness, a professional paper was issued in the summer of 2016 under the title, "Wirkungsorientierung in der humanitären Hilfe" (aligning humanitarian aid in terms of effectiveness). In its latest ranking of donor-funded organizations published in Spiegel Online, the not-for profit consulting institute, Phineo, explicitly awarded Ci.

Ci received a total of roughly EUR 34 million in 2016 from the Federal Foreign Office and the Federal Ministry for Economic Cooperation and Development (BMZE). Collaboration with the (arch) dioceses of Cologne, Freiburg and Rottenburg-Stuttgart was further intensified. Although there were happily no spectacular catastrophes or large natural disasters in 2016, donations of approximately EUR 30 million were received (including EUR 3.2 million for the Bethlehem children's fund). After declining over the decade beforehand, donations excluding appeals for major catastrophes, have been rising steadily since 2012 on account of targeted measures. For this reason the change in the communication and fund-raising strategy will be continued in future.

Detailed information on the global work of Ci has been published in a separate annual report (available at www.caritas-international.de).

1.4 Developments in Social Economics

The enhancement of internal transparency and controls by supervisory boards remains a key item on the agenda of the various member associations. The goal is to introduce effective supervisory and control structures at the various legal entities.

Anchoring the principles of good and responsible management and control includes the need to appoint a balance mixture of qualified men and women on the governing boards of the various organizations, also to improve the competitiveness of the Caritas organizations.

To promote these goals, a project was initiated throughout the Association to foster equal opportunity within the corporate culture of Caritas and interdisciplinary exchange with other organizations was initiated via membership in the “Initiative Chefsache” program. New formats for networking the Association were developed to systematically promote and disseminate innovations among the members of Caritas.

The economic and qualitative aspects of Caritas work should be presented to the public with more emphasis to raise awareness of the value of welfare work in enhancing the social factors of locations. The transparency standards developed by Caritas and Diakonie constitute the foundation for publications. In the process, greater emphasis is being placed on the presentation of the impact of social services. The transparency prize issued by Caritas and Diakonie for the second time in 2016 makes an important contribution towards fostering awareness of transparency.

1.5 Collective Bargaining Law

The 16th assembly of delegates held in 2016 confirmed the budget of the “Arbeitsrechtliche Kommission” (labor law commission) for the years 2017 to 2020 thereby laying the foundation for the work of the commission.

The elections to the labor law commission for the new term from 2017 to 2020 were held as scheduled. The 11 seats held by trade unions on the commission were occupied by 10 representatives of the Marburger Bund and one representative from a trade union for social workers.

The labor law commission raised wages for employees in two stages in 2016. In addition, Annex 31 and 32 AVR of the regulation on the remuneration of nursing staff were reworded, partly by adopting the rules in the collectively bargained agreement for public sector workers and partly by means of specific provisions.

Moves were once again made in 2016 to sound out attitudes towards a nationwide social tariff but without coming to any conclusion. These efforts will continue in 2017.

1.6 Governing Boards

In October 2016 the founding meeting of the reconvened assembly of delegates elected the members to the Caritas Council, which held its founding meeting in mid-November. Effective 1 July 2017, the Caritas Council appointed the Director of Finance, HR and Business Affairs, Mr. Hans Jörg Millies to the position of General Secretary for a period of six years and reassigned the duties to him which he was already entrusted with. Likewise, Mrs. Eva Maria Welskop-Deffaa was appointed to the management board effective 1 July 2017 for a term of six years and assigned with responsibility for Social Policies and Politics. Moreover, the Caritas Council elected the personnel committee (Chairman: Mr. Burkard Schröders) and assigned it the task of preparing the election for the finance committee in the Caritas Council 1/17.

1.7 Employees

Employment contracts are governed by the AVR guidelines for employment contracts in the facilities of the DCV [*“Richtlinien für Arbeitsverträge in den Einrichtungen des Deutschen Caritasverbandes”*]. This extends to a right to receive additional benefits from the Church Supplementary Pension Fund [*Kirchliche Zusatzversorgungskasse (KZVK)*]. Employment agreements entered into prior to 1 August 1998 provide the employee with a right to assistance in the event of sickness, birth of a child and death. Employees with contracts dating from before 1 January 1976 and an entitlement within five years as of this cut-off date have a right to a retirement pension under the internal pension regulation valid at the time.

In accordance with the conclusion of the negotiations with the Baden-Württemberg regional commission, wages were raised by 2.4% effective 1 June 2016 with another raise of 2.35% on 1 January 2017.

The Administrative Board of the KZVK [*“Kirchliche Zusatzversorgungskasse”*: Church Supplementary Pension Fund] passed a resolution in February 2016, in reaction to the ruling handed down by the Federal Court of Justice on 9 December 2015, that contributions to the restructuring fund will no longer be levied and the contributions paid since 2002 will be paid back to the carriers of the fund.

A corresponding application for reimbursement was filed and the restructuring funds contributed by DCV returned in 2016. Since November 2016 the KZVK has levied a flat-rate financing contribution.

This is intended to provide a permanent solution to the funding deficit in “Abrechnungsverband S” of the fund until 31 December 2040 in place of the restructuring fund.

The DCV headquarters were certified as a family-friendly operation by berufundfamilie gGmbH of the Hertie Foundation, as it consistently pursues a policy of reconciling professional and family interests to win and bind professionals to the organization.

The management board of DCV is composed of Prelate, Dr. Peter Neher, President (chairman), Prof. Dr. Georg Cremer, General Secretary in charge of social policies and politics and Hans Jörg Millies, in charge of finance and human resources. Total remuneration paid to the board (including fringe benefits, but excluding the employer's share of social security and other social levies) amounted to EUR 419k in 2016 (prior year: EUR 413k). The individual compensation paid is presented in the notes to the financial statements and published in the internet.

1.8 Strategic Goals

The fundamental principles underlying the work of Deutscher Caritasverband are described in § 6 of the articles of the DCV. The strategic goals set by the management board on the basis of these principles provide overall orientation, define the focus of the organization and identify the prospects for the Association, its headquarters and its main representations. Reviewing and aligning the strategic goals is a regular task of headquarters.

Within the framework of the “Zukunftsdialoگ Caritas 2020” (Dialog on the Future of Caritas), a roadmap was identified that lays the foundation for the development of the Caritas association in coming years. Moreover five fields of action were formulated. In addition, three social trends were identified within the framework of the strategy process. A matrix was then drawn up on this basis with 15 specific goals for 2016 and 2017 that were approved by the Caritas Council in November 2015.

The strategic goals of the management board for the German Caritas association for the years 2016 and 2017 have been published in detail at www.caritas.de.

2. Business Report

2.1 Overall Assessment of Business Development and the General Situation

The management board is satisfied with business development in 2016. The year closes with a net loss of EUR 0.4 million (prior year: EUR 1.4 million). However, as in the prior year, the net loss contains some non-recurring effects. While the net loss in the prior year was due to another addition to the fund for “home education in the Federal Republic of Germany in 1949 to 1975” of EUR 0.642 million, recognition of a provision of EUR 0.162 million for the “Anerkennung und Hilfe” (recognition and aid) foundation, and demolition expenses of EUR 0.6 million for a number of construction projects, the net loss in the 2016 reporting year is due to additional maintenance expenses for fire safety measures and the continued renovation of the Lorenz-Werthmann House of EUR 1.2 million to improve its energy balance, further addition of EUR 0.379 million to the provision for the “Anerkennung und Hilfe” foundation and the first payment of the financing contribution of EUR 0.4 million to KZVK. Income from the release of provisions rose by EUR 0.6 million and income from the disposal of fixed assets (excluding financial assets) by EUR 0.7 million. It should also be considered that interest income and gains on sale from the temporary investment of special purpose funds totaling EUR 3.0 million (prior year: EUR 2.9 million) were used during the year to fund special purpose projects and to finance the operating budget during the year and therefore reduced the result for the year.

The reimbursement of the restructuring funds paid to KZVK (see 1.7) led to an amount of EUR 1.5 million plus interest of EUR 0.4 million being credited to the account. However, this non-recurring income is offset by additions of EUR 1.9 million to the provision for indirect pension obligations which comes to EUR 3.5 million.

Due to further rises in the listed prices of long and short-term securities, it was possible to write these items up by EUR 0.6 million in 2016. In the prior year, these write-ups amounted to EUR 0.1 million. Moreover, as in the prior year, share price gains of EUR 1.1 million were realized from restructuring financial assets. Write-downs of securities decreased slightly by EUR 0.1 million to EUR 0.6 million.

A sharp rise of EUR 1.0 million in interest income on capital investments was recorded, which was, however, almost fully offset by a decrease in investment income.

In sum, the retained earnings reported at the end of 2016 after release of special purpose items and reserves come to EUR 0.1 million compared to an accumulated loss of EUR 1.3 million in the prior year.

The result of operating activities in 2016¹ closed the year close to the break-even point (EUR 12.6k). Higher personnel expenses and other administrative expenses are mitigated by the subsidies from the federal government for migration and integration and higher revenue. To ensure the operating result broke even, only EUR 1.65 million of the original allocation of EUR 1.9 million from asset surpluses and reserves provided for in the 2016 budget was needed.

A comparison to the forecast of business development made in the prior year reveals that the expected operating and project budgets were generally met. This is particularly true for the projected volume of donations and project expenses.

These factors led to an improvement in the net result for the year from a loss of EUR 1.4 million to a loss of EUR 0.4 million. The result is therefore within the expected range.

2.2 Net Assets and Financial Position

In comparison to the prior year, the balance sheet total of DCV decreased by 0.8% to EUR 272 million. With regards to assets, this is due to a decrease in receivables, particularly from federal grants and subsidies and accrued interest.

The balance of cash and cash equivalents decreased by EUR 8.2 million to EUR 23.3 million due to a restructuring of financial assets, with securities classified as current assets rising by the same amount. Securities classified as long-term financial assets have remained more or less constant at EUR 79.5 million. As of the reporting date capital investments consist of bonds (75.0%), equity papers (17.5%) and real estate funds (7.5%).

¹

Combined income statement less project budgets and asset management

A decrease of EUR 0.4 million was recorded in property, plant and equipment to a closing balance of EUR 29.2 million. Day-to-day investments of EUR 1.5 million to retain property, plant and equipment at the current level were offset by scheduled depreciation in the fiscal year of EUR 1.7 million and a write-down of EUR 0.2 million recorded on project assets. Capital expenditures mainly consist of the acquisition of a fire alarm system, a telephone system, other office equipment, computers and software. Building permission was obtained in 2016 for a property in Freiburg. Costs of EUR 0.5 million were incurred in the course of preparing this construction project and for additional planning and construction costs for other properties.

On the liabilities side, equity accounts for 36.4% of the balance sheet total (prior year: 36.2%). Equity remained virtually unchanged at EUR 99.1 million.

The special purpose funds serve to finance projects and flow to the individual projects depending on their stage of completion. In spite of the high level of federal grants and high receipts from donations, the balance of this item had decreased by EUR 1.7 million by the end of 2016 due to high project expenditures in comparison to the prior year. The special purpose funds will be used in coming years for the purposes stipulated by the donors. The utilization of donations is presented in the income statement under income in the same way as the expenses incurred under the line item, Income from utilization of donations.

Provisions for pensions and similar obligations increased by EUR 1.3 million to EUR 11.4 million in 2016. This is due to an increase of an additional EUR 1.9 million in the provision for indirect pension obligations to a total of EUR 3.5 million. This provision was recognized to cover the funding deficit in the Abrechnungsverband S of the KZVK [Church Supplementary Pension Fund] (see 1.7). The provision for direct pension obligations, on the other hand, decreased by EUR 0.6 million on account of the death of a number of plan participants.

Other provisions decreased by EUR 1.0 million to EUR 4 million, mainly on account of a decrease in the provisions for Healthcare assistance ("Beihilfe") and for obligations from overtime.

A provision of EUR 0.3 million was reported to cover the amount needed to step up the fund created in 2011 for “youth homes in the Federal Republic of Germany in 1949 to 1975”. In the prior year a provision of EUR 0.5 million was established for this purpose. Additional provisions of EUR 0.4 million were recognized for the Anerkennung und Hilfe foundation in 2016.

Fixed assets are totally covered by long-term capital. The repayment of bank loans led to a decrease of EUR 1.7 million in long-term liabilities to EUR 3.5 million.

2.3 Result of Operations

The course of business and the results for the year are explained in Section 2.1. Changes in income and expense items are presented in the following table.

2 3.1 Income

Income	2016		2015		Change	
	EUR k	%	EUR k	%	EUR k	%
Donations received in the fiscal year	30,543		41,752		- 11,209	
Change in special purpose funds from unused donations	5,816		-5,139		10,955	
Income from use of donations	36,359		36,613		-254	-0.7
Inheritances, gifts and other grants	7,483		2,711		4,772	
Change in special purpose funds from unused inheritances	-965		-224		- 741	
Total donations, inheritances and other grants	42,877	25.5	39,100	24.7	3,777	9.7
Church subsidies	10,890		11,842		- 952	
Federal subsidies	73,010		67,253		5,757	
Other subsidies (e.g. EU, lotteries, foundations)	10,506		10,001		505	
Change in special purpose funds from unused subsidies	-3,188		900		- 4,088	
Total subsidies	91,218	54.4	89,996	56.8	1,222	1.4
Membership fees	6,925	4.1	6,565	4.2	360	5.5
Interest, investment income	4,609		4,072		537	
Share price gains	1,093		1,158		- 65	
Rents/leases	3,745		3,827		- 82	
Write-ups of financial assets and securities classified as current assets	623		106		517	
Total investment income	10,070	6.0	9,163	5.8	907	9.9
Proceeds from sales of charity stamps	5,534		5,141		393	
Sales (printed materials, campaigns and advertising materials, events, conferences and seminars)	7,252		7,065		187	
Total sales, events	12,786	7.6	12,206	7.7	580	4.8
Reimbursement of restructuring funds KZVK	1,458		0		1,458	
Special items/provisions	1,393		801		592	
Other	1,106		543		563	
Other income	3,957	2.4	1,344	0.8	2,613	194.4
Total income	167,833	100.0	158,374	100.0	9,459	6.0

Donations

The volume of donations at Ci depends heavily on external events, in particular the attention which the media place on natural disasters, which generally trigger higher donations from the population than humanitarian crises caused by war. The primary goal of the fundraising strategy is to stabilize and successively increase the volume of donation income that is independent of large catastrophes that are reported widely in the media.

In sum, donations of roughly EUR 30 million were received in 2016. Of this amount EUR 4.7 million was tied to humanitarian projects in the Middle East, especially as a result of the war in Syria, and EUR 2.1 million for the victims of Hurricane Matthew in the Caribbean. In addition, donations of EUR 1.3 million were received to fund aid projects to ameliorate the refugee situation. Furthermore, and at a comparable level to the prior year, donations of EUR 13.1 million were received for emergency aid and disaster relief, EUR 3.2 million for the Bethlehem children's fund and EUR 6.0 million (prior year: EUR 6.4 million) for a range of smaller projects.

Total utilization of donations amounted to EUR 36.4 million in 2016 (prior year: EUR 36.6 million). Income from the utilization of donations is comprised of the current donations received in the fiscal year plus the net change in the special purpose funds which consist of unutilized donations. The item for special purpose funds from unused donations decreased by EUR 5.8 million in comparison to the prior year.

Generally, this development is due to the amounts collected in 2015 and used in 2016 for long-term aid programs including aid for refugees and projects in the Middle East and Nepal.

DCV is obliged to respect the wishes of the donors and manages the donations reliably, exercising the utmost of fiduciary care. A portion of the donations are earmarked for a special purpose and – after deducting reasonable administrative fees – used for the purpose assigned by the donor. If donations are invested in the meantime, the guideline on financial investments is applied accordingly along with the ethical principle as well as observing a low-risk and secure investment strategy.

Subsidies

The decrease in church subsidies is due to the fall in grants from the Verband der Diözesen Deutschlands (Association of German Dioceses - VDD) for global aid projects of Ci and additional reductions in institutional grants from the VDD for social work in Germany. On the other hand, grants from individual (arch) dioceses for the global projects of Ci have continued to rise.

The increase in government subsidies is primarily due to the relatively high approvals for funds from the Federal Foreign Office and the Federal Ministry for Economic Cooperation and Development for aid projects associated with refugees in the Middle East and aid to the Ukraine. In addition, higher subsidies were approved in 2016 from the budget for children and youths, migration counselling and for projects related to providing aid to refugees in Germany.

Membership fees

In fiscal year 2016 membership fees of EUR 0.9 million were collected from the Diocese Caritas associations. In addition, the members paid an amount of EUR 6 million (prior year: EUR 5.7 million) into a special purpose fund for the implementation of the labor law regulation of Caritas.

Investment income

Interest income increased significantly by EUR 1.4 million compared to the prior year. This is partly attributable to distributions from the special fund which were paid out for the full fiscal year for the first time. On the other hand, the reimbursement of the restructuring funds for the years 2002 to 2014 (see 1.7) from KZVK resulted in interest of EUR 0.4 million being credited. By contrast, distributions from subsidiaries trended downwards, decreasing by EUR 0.8 million to EUR 0.1 million on account of a non-recurring distribution in the prior year. Exchange rate gains of EUR 1.1 million correlate roughly to the level of the prior year.

Write-ups of financial assets and securities classified as current assets

According to Sec. 253 HGB, any write-downs recorded in prior years to the lower of market or net realizable value must be reversed if market prices recover. However, such write-ups may not exceed the historical cost of the asset. Write-ups due to the recovery of market prices in 2016 resulted in income of EUR 0.6 million (prior year: EUR 0.1 million), compared to write-downs of financial assets and current securities of EUR 0.6 million (prior year: EUR 0.7 million). The fluctuation in the values is due to the developments of the capital markets in 2015 and 2016.

Charity stamps

Deutsche Caritasverband e.V. secures the distribution of charity stamps to ensure they are available nationwide. These postal instruments give parishes, facilities and welfare services the possibility to directly fund welfare activities from the surcharge charged on the stamp. In 2016 income from surcharges for the DCV amounted to EUR 0.44 million (prior year: EUR 0.45 million).

Miscellaneous

Other operating income includes the income from the sale of property of EUR 0.7 million.

2.3.2 Expenses

Expenses	2016		2015		Change	
	EUR k	%	EUR k	%	EUR k	%
Personnel expenses	27,094	16.1	24,079	15.1	3,015	12.5
Non-personnel expenses (cost of materials and other operating expenses)	27,618	16.4	26,846	16.8	772	2.9
Project expenses*	110,215	65.6	105,300	65.9	4,915	4.7
Subsidies paid to third parties	508	0.3	492	0.3	16	3.2
Depreciation and amortization:						
Amortization of intangible assets and depreciation of property, plant and equipment	1,727	1.0	1,822	1.1	- 95	- 5.2
Write-downs of financial assets and current securities	647	0.4	729	0.5	- 82	- 11.2
Interest and similar expenses	218	0.1	404	0.2	- 186	- 46.0
Other operating taxes	157	0.1	146	0.1	11	7.5
Total expenses	168,184	100.0	159,818	100.0	8,366	5.2

* assistance provided to national and international aid programs and other project expenses

Of the total increase of EUR 3.0 million in personnel expenses, an amount of EUR 1.9 million can be attributed to the increase in the provision for indirect pension obligations. Other factors affecting personnel expenses were collectively bargained increase in wages, the first payment of a funding contribution to the KZVK of EUR 0.4 million and the cost of new recruits, particularly for refugee work. The headcount on the balance sheet date comes to 445 (prior year: 415, excluding trainees and interns) and increased significantly on the prior year.

The increase in other administrative expenses is due to the increase of EUR 0.4 million in the cost of materials for sales of charity stamps and an increase of EUR 1.2 million in maintenance expenses as a result of construction work for fire safety purposes and further renovation of the Lorenz-Werthmann House to improve its energy budget.

On the other hand, grants paid to Caritas Stiftung Deutschland decreased by EUR 0.4 million to EUR 0.8 million. Moreover, an amount of EUR 0.379 million was added to a provision for the “Anerkennung und Hilfe” foundation in 2016, whereas in the prior year expenses of EUR 0.162 million granted to this foundation plus an amount of EUR 0.642 million for the fund created in 2011 for “youth homes in the Federal Republic of Germany in 1949 to 1975” were reported.

Donations and earmarked subsidies are transferred to the various projects and campaigns depending on the stage of completion and reported under project expenses. The increase in donation income in the prior year and the significant increase in subsidies from the Federal Government led to an increase of EUR 4.9 million in project expenses in comparison to the prior year to a total of EUR 110.2 million.

2 3.3 Administrative and Advertising Expenses

The expenses discussed in 2.3.2 include administrative expenses and advertising. This includes all expenses which cannot be directly allocated to the tax-privileged purposes listed in the statutes.

The share of administrative and advertising expenses for 2016 is calculated on total expenses in line with the guidelines issued by DZI (*“Deutsches Zentralinstitut für soziale Fragen”*) as follows:

Deutscher Caritasverband e.V.	2016		2015	
	EUR k	%	EUR k	%
Project expenditure				
Direct expenditure in accordance with the statutes (incl. project expenses)	131.228		124.542	
Project promotion	1.939		2.208	
Project assistance	3.967		3.608	
Statutory campaigning and educational work	1.505		1.546	
Total project expenditure	138.639	91,4	131.904	90,8
Administration*	7.972		8.291	
Advertising and PR	5.025		5.124	
Total advertising and administrative expenses	12.997	8,6	13.415	9,2
Total expenditure*	151.636	100,0	145.319	100,0

* Due to surpluses the expenses from commercial operations and asset administration do not have to be considered in the calculation of the administrative cost rate.

As an orientation, DZI makes the following step-downs in advertising and administrative expenses: Advertising and administrative expenses are justifiable up to a ceiling of 30%. Below 20% they are considered reasonable and below 10% as low. The ratio of administrative expenses at DCV in fiscal year 2016 lies, as in the prior year, in the low-end of the range at 8.6%.

3. Opportunities and Risks Relating to Future Development

The assessment of the future development relates to the direct financial and economic environment in which DCV e.V. acts as the head of the organization. Which developments the legally independent service providers and facilities or members of the Association expect to see are not covered by this management report.

Risks exist primarily in terms of obtaining the long-term finance needed to fund the tasks of DCV which it is committed to perform in accordance with its articles. This is illustrated by the structure of income:

Subsidies from the Federal Government

As a result of the high number of refugees, there are additional tasks to be performed in each of the areas in which Caritas is active and in some cases, new duties as well. To address these tasks, the federal grant (Einzelplan 17, Kapitel 1710, Titel 684.04) was stepped up by EUR 0.5 million in 2016. For all other tasks, the subsidy has remained unchanged for a number of years and does not consider any growth factor. This and other federal subsidies for project work in Germany and abroad are subject to the annual federal budget. Consequently there is no planning certainty for the long-term. Savings measures contained in the budget could lead to a reduction of the federal subsidy.

Church tax funding

DCV obtains a subsidy from the VDD funded from church tax for its registered activities in Germany and project subsidies for project work abroad. The subsidy for work in Germany was already lowered by 15.9% until 2006. A further reduction of 20% has been announced until 2020.

An initial 10% reduction was already executed for the period from 2012 to 2015 and, despite a significant increase in church tax income, another 10% reduction has already been conducted for 2016 with further reductions announced for the years 2017 to 2020. This has been considered in the budgets of DCV (see Exhibit 4).

Donations

To finance its global emergency and disaster relief programs DCV and its aid provider Caritas international depend on donations. Support from the media plays a major role in this regard. However competition for donations is fierce in Germany. A significant reduction in donation volume could have a major impact on the ability of Ci to provide emergency assistance and disaster relief. In order to stabilize donation income in the coming years, a fundraising concept was drawn up and implemented. We perceive an opportunity to win additional donors and increase donation income.

Lotteries

The Aktion Mensch, GlücksSpirale and Deutsches Hilfswerk lotteries are a key source of funding for care services and facilities, nationwide Catholic specialized charity associations and DCV.

Subsidies totaling EUR 48.5 million were received in 2016 for the associations and members. At the level of DCV, subsidies of roughly EUR 1.2 million were received from lotteries.

The amendments to the interstate treaty on lotteries performed in 2011 have proven their worth. In spite of these positive moves, the freedom of the lotteries funding social work has been reduced by unreasonable administrative restrictions imposed by the German states with regard to advertising and marketing lotteries over the internet. The lotteries funding social work need more freedom to ensure they remain competitive. The widely discussed commercialization of lotteries by permitting sports bets bears a risk that the state monopoly on lotteries might become blurred in the mid-term and lead to a significant disadvantage for those lotteries funding social work. This will impair the financing of charities and social work.

Charity stamps

Charity stamps are another source of financing the activities required of DCV by its statutes and its role as head of the organization. They are primarily used for concepts, project work and other welfare models. The revenue from charity stamp surcharges is an effective source of support for welfare facilities and local caregivers. In light of the general trend of declining sales, DCV is putting more effort into structuring distribution channels more cost-efficiently and thus securing them as a source of funding for charity work.

Investment income

To secure the ability to perform the tasks expected of it as head of the organization, DCV is dependent on investment income.

DCV manages a portion of its capital investments itself. The other portion has been invested in funds composed of equity papers and bonds. The management of capital investments is governed by a financial investment policy and a sustainability concept.

Ethical principles that are in accordance with the mission statement of DCV are anchored in the policy, which consider social, ecological and economical aspects. Moreover, they set on transparency, returns and risks.

The financial investment policy also provides for diversification and a risk-averse investment strategy in order to keep the risks of default and risks from fluctuations in cash flow as low as possible. The financial investment committee ensures compliance with the financial investment policy and the sustainability concept. It monitors the changes in capital investments on a quarterly basis, values them and adjusts strategy accordingly. The management board and the financial committee regularly address developments of the capital investments.

Financial assets are exposed to various risks, especially the risk of changing interest rates, prices, exchange rates and the risk of default. These risks are countered within the framework of the risk management system and by observing the financial investment policy. Risks of fluctuations in cash flow are mitigated by keeping adequate cash reserves. A central risk lies in the forecast that interest rates will remain low for the long-term in Europe.

The relevant central banks are expected to leave the key lending rates at a low level for the long-term in order to stimulate economic growth and secure the ability of debtors to service their debts. For this reason, it will remain difficult to obtain a return that is above the inflation rate. The management of financial investments puts great importance on changes in the market value of capital investments due to changes in interest rates. The risk of changing interest rates is managed by matching terms. Currency risks are kept as low as possible as investments denominated in foreign currency are only made in investment funds and then only to a small extent.

On account of the geopolitical events, the share markets currently display a great deal of volatility with an associated risk of price changes in equity papers. However, they remain indispensable on account of the high dividend returns. Thus hedging instruments are used selectively to reduce risks but not for trading or speculative purposes.

In addition to capital investments, investment income from real estate is becoming increasingly important while simultaneously meeting social obligations. Consequently, the substance of the property is maintained and used accordingly. In this regard we perceive an opportunity to generate stable income for the long-term.

Opportunities and risks relating to the Caritas brand

Based on surveys, the Caritas brand enjoys a good reputation from which its services and care facilities can profit. However, this also implies that possible mistakes by individual entities or their services arms and facilities, individual managers or even international cooperation partners providing emergency aid and disaster relief could lead to a loss of reputation for the organization as a whole. Such loss of reputation could have significant political, ecclesiastical or even financial consequences. For this reason, it is particularly important to strengthen the controls and transparency of the structures of the legal entities (see Section 1.4).

Risk management and internal audit

The direct risks to which DCV is exposed on account of its role as the national headquarters and its international activities are recorded in a risk management system and documented in a risk report.

In addition, the management board has established an internal audit function that was assigned to Solidaris-Revisions-GmbH, Freiburg. Each year the management board passes an audit plan and is reported to directly by the internal auditors over the course of the year.

The overall risk position shows that the risks to which the organization is exposed do not individually or in combination jeopardize the ability of the organization to continue in business after considering the individual measures that have been taken or planned. There have not been any significant changes in the assessment of significant risks in comparison to the prior year.

4. Outlook

Tasks and projects

In addition to the general tasks required by its statutes, such as its social work and political activities, lobbying on behalf of disadvantaged persons, personnel training, involvement in labor law issues and collectively bargained wage and salary agreements, international emergency aid and disaster relief, DCV will also once again devote itself to special projects in 2017. Plans include a project on an social environments and the project titled “Armut sehen, Menschen beteiligen, Not bekämpfen: Anstöße für eine verbandliche Debatte” [perceiving poverty, involving people, combating need: new ideas for debate within the Association]. Other projects include one to promote the ecological sustainability of the facilities and services of Caritas, as well as projects on demographic change and post-natal family support. Moreover, DCV assumed the leadership of the Federal Association of Non-Statutory Welfare (BAGFW) in 2017 and plans to introduce environmental management system pursuant to EMAS.

The Caritas 2020 dialog on the future of the organization will be continued once again in 2017. A context is sought by which the changes in the overall organization should be favored in the sense of the strategic roadmap (see 1.2).

Many individuals have been forced from their home countries in recent years. They have fled war, displacement, famine and catastrophes. If they are to find a new home in Germany, German citizens and the new migrants must meet with respect and appreciation. Structuring this interaction and fostering integration will be core tasks of society in the coming years. The annual Caritas campaign for 2017 is therefore focused on campaigns and political promotion of migration and integration and runs under the motto, “Zusammen sind wir Heimat” [together we make our home country]. In addition, a number of projects are once again being conducted in 2017 to take in the large number of refugees and as a contribution to meeting the wider social obligation to integrate these incoming refugees in our society.

The number of ongoing crises that need to be addressed with humanitarian aid is likely to even increase in future. Last, but not least, the intensity of natural catastrophes is likely to rise on account of climate change. The issue for Caritas international in future will be to win the support of private and public sponsors to provide the aid required.

The term of Prof. Dr. Georg Cremer as General Secretary and Director of Social Policies and Politics will come to an end on 30 June 2017 when he will enter retirement. The Caritas Council appointed Mr. Hans Jörg Millies, the Director of Finance and Human Resources as his successor as General Secretary and Mrs. Eva Maria Welskop-Deffaa as the new Director of Social Policies and Politics (see 1.6).

Budget

The budget for the coming year and the mid-term planning consist of the budgets for both operations and projects. In November 2016, the Caritas Council approved the budget for 2017 and the mid-term financial planning for 2018 to 2020. With a total business volume of EUR 50.4 million, roughly EUR 2.7 million needs to be allocated from investment income to make the operating budget break even in 2017. In particular, wage and salary increases and the relative decline in fixed subsidies or even falling subsidies mean that the day-to-day expenditures in the operating budget are no longer covered and need to be covered by investment income or the reserves that were established from funds that were approved but not needed.

The assembly of delegates passed a resolution on a 2.9% annual increase in membership fees effective 1 January 2017. In addition, investment income is likely to rise in the coming years, particularly from property and equity investments. However, this will not be enough to close the financing deficit for the long-term. For this reason, the headquarters of DCV must draw up a development process for the organization and check its tasks (in cooperation with the associations and members) and review any opportunities to raise revenue.

Such measures will allow the organization to reduce the amount it draws from its reserves. This will enable the operating budget to be financed solely from investment income and from drawings of unneeded reserves until 2021 from today's standpoint.

Additional projects are planned for 2017 to address the large number of refugees and to secure additional funding for migration and integration. Otherwise, the project budget for 2017 and the mid-range financial planning for 2018 to 2020 assumes that subsidies will remain constant and donations develop comparably.

After spending roughly EUR 67 million on foreign projects in 2016, expenses of EUR 81 million have been budgeted for 2017 on account of the high level of donations in the current year.

An amount of EUR 43 million was spent in 2016 on assistance projects in Germany, which are generally funded by external sources (including aid programs for migrants, social integration, children and youth assistance, people suffering from difficult circumstances, power-savings check, national civil service, care for the elderly and disabled as well as health projects). It is assumed that personnel expenses and administrative expenses will remain constant in 2017 on account of the continuing projects for work with refugees. The further increase in project funds will be financed by federal subsidies and own funds.

Investment income depends primarily on the future development of the financial markets. Due to the sustained slump in interest rates, we are forecasting low income from our capital assets in 2017, with income from real estate remaining at roughly the same level as the prior year.

With regard to real estate, work will commence on the construction of apartment housing in 2017 with building permission being sought for an additional construction project. Moreover, in the course of implementing the energy concept for the Lorenz-Werthmann House and neighboring buildings, construction work started on a cogeneration power plant with attached district heat grid. Furthermore, construction of further fire safety measures will be undertaken. No other major investments are planned for 2017.

Non-recurring income from the sale of a building area is expected. No other special factors or extraordinary expenses are currently expected for 2017. Potential salary increases were already considered in the budget for 2017. Overall, we anticipate that the day-to-day operating income and expenses will be comparable to those in 2016. We are therefore forecasting that the organization will achieve a slightly positive result in 2017.

Freiburg im Breisgau, 16 May 2017

Prelate Dr. Peter Neher
President

Prof. Dr. Georg Cremer
General Secretary

Hans Jörg Millies
Finance and
Human Resources