Deka Group
Annual Report 2017

100 Jahre Deka

#deka100


Berlin 1918


Frankfurt 2018

A story of success for 100 years.

Finanzgruppe

Deka Group at a glance

BUSINESS DEVELOPMENT INDICATORS		31 Dec 2017	31 Dec 2016	Change (%)
Total assets	€m	93,740	85,955	9,1
Total customer assets	€m	282,888	256,805	10,2
thereof retail customers	€m	138,951	128,650	8,0
thereof institutional customers	€m	143,937	128,155	12,3
Number of securities accounts	thousand	4,492	4,289	4,7
		2017	**2016**	
Net sales	€m	25,671	16,914	51,8
thereof retail customers	€m	12,309	7,710	59,6
thereof institutional customers	€m	13,362	9,204	45,2
PERFORMANCE INDICATORS				
Total income	€m	1,494.1	1,403.7	6.4
thereof net interest income	€m	155.6	139.2	11.8
thereof net commission income	€m	1,202.7	1,107.4	8.6
Total expenses	€m	1,045.2	988.6	5.7
thereof administrative expenses (including depreciation)	€m	1,039.8	970.1	7.2
Economic result	€m	448.9	415.1	8.1
Net income before tax	€m	480.5	489.5	−1.8
KEY RATIOS				
Return on equity (before tax)	%	9.9	9.6	0.3%-Points
Cost/income ratio	%	68.3	60.7	7.6%-Points
KEY REGULATORY FIGURES (without transitional provisions – fully loaded)		**31 Dec 2017**	**31 Dec 2016**	
Own funds	€m	5,442	5,289	2.9
Total capital ratio	%	21.9	22.2	−0,3%-Points
Common Equity Tier 1 capital ratio	%	16.7	16.7	0,0%-Points
RISK RATIOS				
Risk capacity	€m	5,912	5,785	2.2
Group risk (value-at-risk)	€m	2,035	2,039	−0.2
Utilisation of risk-bearing capacity	%	34.4	35.2	−0,8%-Points
NON-GUARANTEED RATING LONG-TERM (SHORT-TERM) [1]				
Moody's		Aa3 (P-1)	Aa3 (P-1)	
Standard & Poor's		A+ (A-1)	A+ (A-1)	
SUSTAINABILITY RATING		**31 Dec 2017**	**31 Dec 2016**	
MSCI		AA	AA	
oekom research		C+	C+	
KEY EMPLOYEE FIGURES				
Number of employees		4,649	4,556	2.0
Number of full-time equivalents		4,078	3,990	2.2

[1] The return on equity (before tax) calculation was changed in 2017. The comparative figure for the year 2016 has been adjusted. The reported figure corresponds to the annualised economic result relative to the average balance sheet equity including atypical silent capital contributions, without additional Common Equity Tier 1 capital (AT1) and adjusted for intangible assets.
[2] Moody's long-term rating since 2015: Long Term Senior Unsecured Debt and Issuer Rating.

Due to rounding, numbers and percentages presented in this report may not add up precisely to the totals provided,

Dear Shareholders and Investors,

The Deutsche Girozentrale began its work on 1 February 1918 – 100 years later, we were able to celebrate our hundred-year anniversary in the company of our shareholders and key stakeholders. The start of 2018 also marked the completion of our D18 transformation programme. D18 created the framework for Deka's evolution into the *Wertpapierhaus* for the savings banks, after the savings banks acquired all shares in DekaBank Deutsche Girozentrale in 2011. The overall effects of D18 have been positive. As the *Wertpapierhaus* for the savings banks, Deka has a clear strategic direction and a viable business model. Our key financial ratios are sound, which is reflected in our excellent ratings on the capital markets. In recent years, Deka has consistently generated high added value within the savings bank association and provided an attractive dividend yield. Deka Group's Economic Result for 2017 was €448.9 million, 8.1% higher than the previous year.

Growth in net sales was especially positive. Having succeeded several years ago in turning sales around, we have kept up a high rate of momentum in recent periods. In 2017, we achieved net sales of a record €25.7 billion. As a result, and thanks to the solid performance of the assets, our total customer assets have risen to €282.9 billion. This sales success is due in particular to the measures we have taken to improve the quality of our products and services, as well as the measures taken to expand sales over recent years.

Following on from Deka Investment's first-ever overall victory in Capital magazine's "Fonds-Kompass" awards in 2017, we were chosen in February as "Fund Manager of the Year" by Finanzen Verlag. Shortly afterwards, Capital-Fonds-Kompass issued its 2018 quality rating for Deka, again awarding the maximum five-star rating to Deka Investment. Deka is one of only four firms to receive the top ranking in the past year.

Our clear, sustainable strategy, the expansion of our sales and the measures we have taken to improve the quality of our products and services are bearing fruit in the form of top ratings in our customer satisfaction surveys.

In our centenary year of 2018, however, we will do more than look back on our past achievements. We are convinced that, as the *Wertpapierhaus* for the savings banks, we have a business model that will serve us well into the future. To ensure that we continue to flourish, D18 has been succeeded by our new programme, DekaPro.

DekaPro takes up some of the themes of D18 and aims to continue the roll-out of our *Wertpapierhaus* strategy with an even stronger customer focus. The intention is to realise growth potential in our business with savings banks, savings bank customers and institutional investors. The programme also covers the optimisation of business processes, so that we can handle the higher volumes of business we are aiming for more efficiently and respond proactively to the opportunities and challenges created by regulatory change.

With our current orientation and customer-focused approach, we still have plenty of potential for growth. The foundations are laid by constant attention to the needs of our customers. We will continue to strive for that in 2018.

Sincerely,

Michael Rüdiger

Dr. Georg Stocker

Manuela Better

Dr. Matthias Danne

Martin K. Müller

Report of the Administrative Board for the 2017 financial year

During the reporting year, the Administrative Board and its committees carried out the duties assigned to them by law, the Bank's statutes and its rules of procedure. The members of the Administrative Board and its committees regularly advised the Board of Management on management issues and oversaw proper conduct of the Bank's affairs by the management. They were involved in all fundamentally significant decisions regarding the company.

Key issues of Administrative Board meetings

A total of four meetings took place in 2017, during which the Board of Management informed the Administrative Board about the Bank's current business trends and profit performance, its risk position and the Deka Group's strategic direction. The Board of Management reported on and discussed business and risk strategies with the Administrative Board in accordance with the minimum requirements for risk management of German credit institutions (MaRisk). The Administrative Board approved the medium-term plan for the years 2018 to 2020 that was prepared on this basis and submitted by the Board of Management. The reports on the activities of Audit and Compliance, along with the remuneration report for the 2016 financial year, were also submitted to the Administrative Board.

Between meetings, the Board of Management informed the Administrative Board of any significant events in writing. Important topics and pending decisions were discussed regularly between the Chairman of the Administrative Board and the Chairman of the Board of Management.

The Administrative Board was provided with regular reports about the implications of developments in the international capital markets for the Bank's earnings, liquidity and risk position, as well as management measures taken by the Board of Management. In addition, the Administrative Board received regular updates concerning the status of ongoing projects, particularly the continued implementation of DekaBank's transformation programme to become the Wertpapierhaus for the savings banks. Another key issue was the passing of resolutions on matters relating to the Board of Management.

During 2017, the Administrative Board also held two full-day training events. In February, it turned its attention to the topic of capital markets business. The event held in October concerned financial reporting and auditing.

Administrative Board Committees

The Administrative Board reorganised its committee structure with effect from 1 April 2017. The functions of the audit committee and risk committee, which were previously combined in a single body, were separated. The risk committee functions were transferred to the pre-existing Credit Committee, membership of which was increased from four members to six.

Since 1 April 2017, the Administrative Board has thus had a General and Nomination Committee, a Remuneration Supervision Committee, an Audit Committee and a Risk and Credit Committee. The committees are made up of the members of the Administrative Board. They support the work of the Administrative Board and carry out preparatory work on the issues and resolutions to be discussed in the main Board meetings. The committees' duties are specified in the Administrative Board's rules of procedure.

The General and Nomination Committee met four times during the past year, focusing primarily on the business model and the strategic development of DekaBank. It also took decisions on a number of matters relating to the Board of Management, including the allocation of duties to Board of Management members and the establishment of policies on contractual arrangements and remuneration. In addition, the General and Nomination Committee issued recommendations on the re-appointment of Board of Management members and on the appointment of new members to the Administrative Board.

The Remuneration Supervision Committee met four times in 2017. It discussed the remuneration report and the remuneration supervision report for 2016, gave consideration to whether the remuneration systems for the Board of Management and employees were set up appropriately and prepared resolutions covering Board of Management members' remuneration and targets.

The Audit Committee met five times in 2017, including one meeting of the former Audit and Risk Committee. It conducted a detailed review of the financial statements and consolidated financial statements. It also monitored the requisite independence of the auditors and the additional services they performed, engaged the auditors to perform their audit based on the key audit priorities established and concluded a fee agreement.

The Audit Committee extensively reviewed the Deka Group's financial accounting. It obtained reports on the audit activities of external auditors, Internal Audit and Compliance, as well as on the resulting action to be taken. The Committee took note of the report on the internal control system (ICS). It also received regular reports at its meetings on the status of national and international regulatory projects of relevance to DekaBank.

The members of the Risk and Credit Committee met four times during the year, including one meeting of the former Credit Committee. At its meetings, the committee conducted a detailed examination of DekaBank's risk position. This examination included credit, market price, liquidity and operational risks, as well as other types of risk, such as business and shareholding risks or legal and reputational risks. Other key issues addressed by the Risk and Credit Committee included discussing the business and risk strategies, updating the recovery plan and carrying out preparatory work for the resolution plan to be prepared by the competent resolution authorities.

In its capacity as a loan approval body, the Committee passed relevant resolutions and familiarised itself with the risk position in lending business. As part of this process, it gave particular attention to developments in the ship financing portfolio. The Risk and Credit Committee also held discussions with the Board of Management covering the business policy for lending business.

The Chairmen or the Deputy Chairmen of the individual committees reported to the Administrative Board on a regular basis concerning the results of consultations held by the respective committees.

Audit and approval of 2017 financial statements and consolidated financial statements
At DekaBank's Shareholders' Meeting, KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG) was appointed as auditor for the 2017 financial year. KPMG audited DekaBank's 2017 financial statements and management report, as well as the consolidated financial statements, notes and Group management report, and issued an unqualified audit opinion on them.

These financial statements and associated documents were forwarded promptly to the members of the Administrative Board, along with KPMG's reports. The auditors attended both the corresponding meetings of the Audit Committee and the accounts meeting of the Administrative Board held today. The auditors reported on the findings of their audit and provided additional information where required. The Administrative Board took note of the auditors' findings and, following its own examination, raised no objections.

The Administrative Board approved the 2017 financial statements and submitted a proposal to the Shareholders' Meeting regarding the appropriation of accumulated profit.

Changes to the Board of Management and Administrative Board
During 2017, the Administrative Board extended the appointment of Martin K. Müller, a member of the Board of Management, for a further five years with effect from 1 May 2018.

Georg Fahrenschon stood down as President of the German Savings Banks and Giro Association as of 24 November 2017. He thereupon ceased to be a member of the Administrative Board of DekaBank, of which he had been Chairman since 16 May 2012. The Administrative Board thanks Mr Fahrenschon for his successful endeavours and for his great personal commitment to the Deka Group.

In the period from 24 November 2017 to 31 December 2017, the role of Chairman of the Administrative Board was fulfilled by Helmut Schleweis as First Deputy Chairman. Since taking office as President of the German Savings Bank and Giro Association on 1 January 2018, Mr Schleweis has been Chairman of the Administrative Board of DekaBank pursuant to section 10(1a) of the statutes.

The following persons were elected as members of the Administrative Board in 2017: Frank Saar, member of the Board of Management of Sparkasse Saarbrücken, Prof. Dr Liane Buchholz, President of the Westfalen-Lippe Savings Bank Association (both from 1 April 2017), Andreas Fohrmann, Chairman of the Board of Management of Sparkasse Südholstein (from 15 July 2017), Burkhard Wittmacher, Chairman of the Board of Management of Kreissparkasse Esslingen-Nürtingen (from 1 October 2017) and Ingo Buchholz, Chairman of the Board of Management of Kasseler Sparkasse (from 1 January 2018).

The following persons ceased to be members of the Administrative Board during 2017: Dr Rolf Gerlach (on 31 March 2017), Rainer Burghardt (on 30 June 2017), Georg Sellner and Carsten Claus (both on 30 September 2017). The Administrative Board would like to thank the members who have left the Board for their valuable contributions and the constructive support they have given to the company and the Board of Management.

Supervision of DekaBank is exercised by the Federal Minister of Finance.

DekaBank performed well in the 2017 financial year, in a persistently difficult market environment. This reflects the valuable work performed by DekaBank's Board of Management and employees. The Administrative Board would like to thank them for their achievements and considerable personal commitment.

Frankfurt am Main, 21 March 2018

The Administrative Board

Helmut Schleweis
Chairman of the Administrative Board

As the *Wertpapierhaus* for the savings banks, Deka Group relies on an integrated business model. Asset Management and Banking create added value for savings banks, their customers and institutional investors at every stage of the investment process.

The *Wertpapierhaus* for the savings banks

100 years of Quality, Competence and Commitment.

Banking business

- Custodial Services
- Financing
- Capital Markets

Learn more: p. 17/18

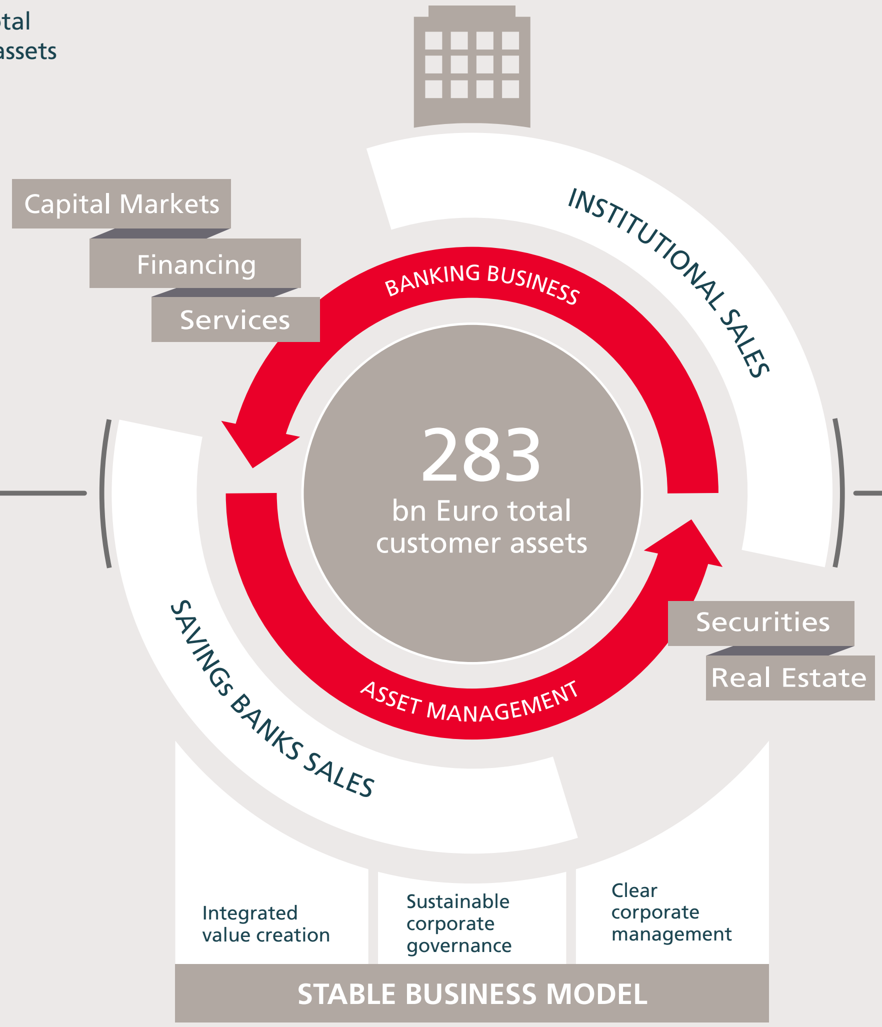
139 bn Euro total customer assets

144 bn Euro total customer assets

Retail customers

- Supporting the advisory process in the savings banks
- Supporting private pension plans and wealth creation
- Multichannel solutions

Learn more: p. 11/12



Institutional customers

Banks

- Saving banks
- Financial institutions

Institutional customers

- Insurances
- Non-profit organisations
- Public sector
- Family Offices
- Pension funds
- Corporates

Learn more: p. 13/14

Asset Management

- Fundamental management of funds
- Asset management and property funds of funds
- Quantitative management of funds and ETFs
- Real Estate and credit funds

Learn more: p. 15/16

For more information, go to: www.deka.de/deka-group

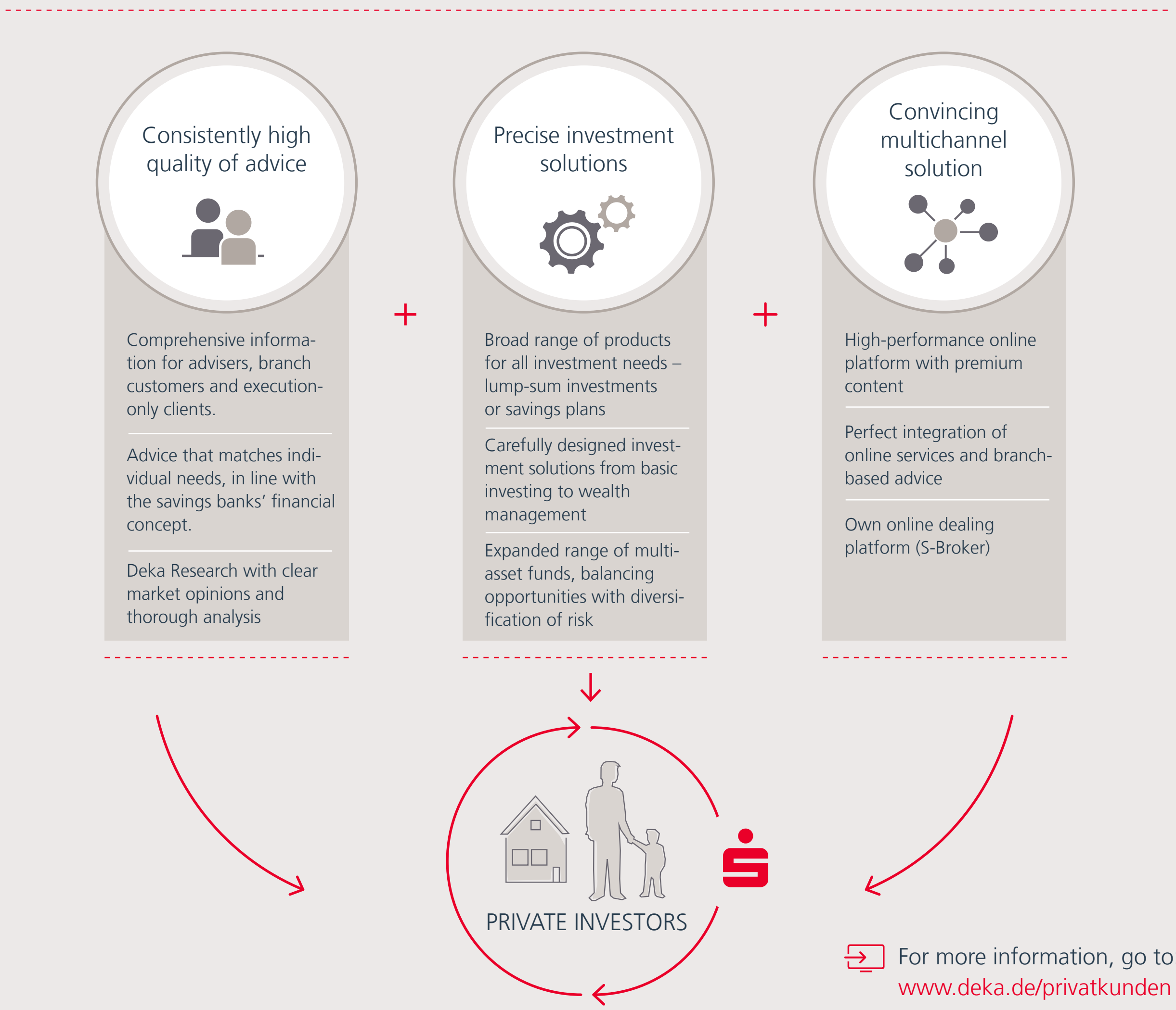
EXPERTISE AND SOLUTIONS FOR SAVINGS BANK CUSTOMERS

More quality in investing

Interest rates are low and the political environment is turbulent. If you want to build up and safeguard your capital reliably, you need quality in investing. At Deka, that is what we stand for: as the *Wertpapierhaus* of the savings banks, we have made it our mission to offer over 40 million savings banks customers better alternatives for their savings. Everyone can profit from the future: small savers and wealthy investors alike. Investors who want one-to-one advice at their savings bank branch, and execution-only clients who want to manage their investments primarily online. The route to this goal involves carefully designed, customised investment solutions based on an in-depth analysis of customer needs, markets and companies, as well as on well-founded information and services. In this way, Deka can provide investment and asset management solutions that are precisely tailored to the requirements of different types of investors. As the *Wertpapierhaus* for the savings banks, this is what exactly Deka stands for.

Deka – Quality for all investors

Quality in every dimension: Deka's services for private investors



For more information, go to:
www.deka.de/privatkunden

Advisory – Quality across all channels

Quality in investing means advice that is centred on customers' needs and focused on their personal situation. Deka supports savings banks' customer advisers with a full range of training courses and information, enabling them to provide investment advice at the highest level. Execution-only customers, as well as customers who want to do some background research before an advisory meeting and develop their own investment strategy, can find research and analysis tools on Deka's online platform, alongside wide-ranging information material, which they can use to help form their investment decisions.

Investment solutions – customer-centred and perfectly positioned

Deka's product and advisory offering is an integral part of the savings banks' financial concept. From basic investing to private pension plans, investment savings schemes and specialised product bundles for larger private and corporate portfolios, we have the right solution for the needs of every customer. Deka's product range and investment process are constantly evolving, ensuring that our investors can always participate in current developments and make full use of new opportunities.

Current examples are bond funds that invest in the high-yield market, an open-ended property mutual fund with a North American focus that offers opportunities for currency gains, Deka-Industrie 4.0, with which investors can take advantage of the growth opportunities of the fourth industrial revolution, and our multi-award-winning range of certificates.

For more information on Deka products, go to:
www.deka.de/privatkunden/produkte

Multichannel: reaching customers wherever it suits them best

For Deka, a key component of quality is offering customers products and services that match their demands and inclinations. We are therefore working with the savings banks to constantly enhance their multichannel offering. Savings bank customers can now pick investments, open a custody account and purchase securities online in a single process via the "internet branch", without having to switch to another communication medium. Savings banks themselves can integrate Deka's white-label information and advisory solutions for securities into their own websites, so that they can reach and advise customers both in-branch and online.

DekaBank's wholly owned subsidiary bevestor operates as a test platform for the agile development and piloting of innovative digital securities solutions for the *Sparkassen-Finanzgruppe*. After successful trials, market-ready solutions are rapidly created and made available to the savings banks. The foundation of bevestor is an important step forward in digitalisation for the *Sparkassen-Finanzgruppe* and DekaBank.

In addition, integrating S-Broker has enabled Deka to build up further expertise in online brokering and custody account management. A central aim of this work is to enable customers to obtain high-quality securities investing across every access channel in a form that meets their individual needs.

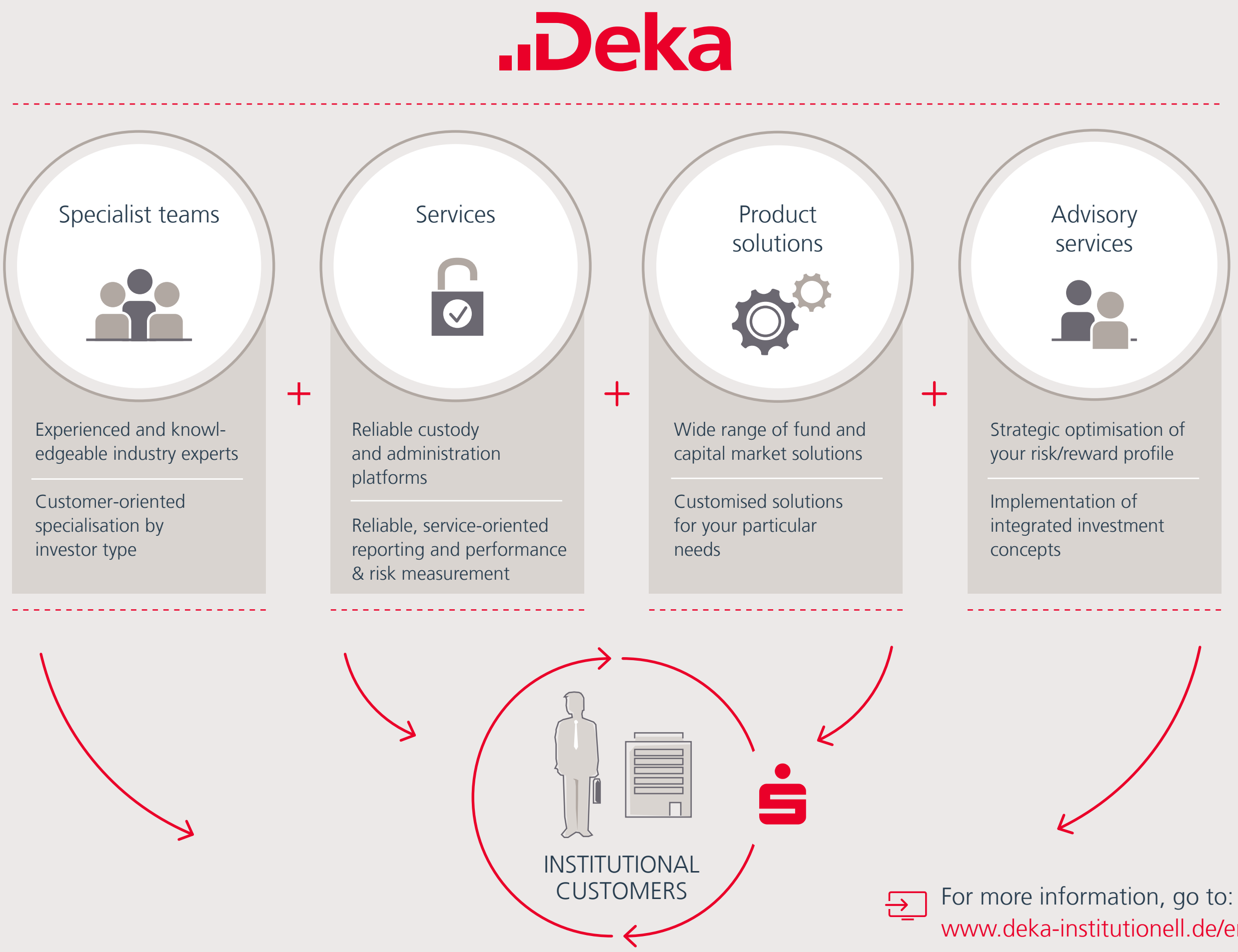
EXPERTISE AND SERVICE FOR INSTITUTIONAL CUSTOMERS

Investment solutions that fit

Deka is a first-choice partner for institutional customers. Our asset management and banking products form part of a holistic advisory approach that helps customers achieve both their key goals: assuring regulatory compliance at reasonable cost, and implementing a specific business strategy to seize opportunities for returns in any market environment.

Our advisory and solution expertise is combined under the *Deka Institutionell* brand with its core promise, "Success begins with respect". The starting point is always the individual customer, their particular background and their specific goals and requirements with regard to investments and balance sheet management – as well as a clear understanding and respect for their financial and ethical values. Combining a customer-centred approach with deep roots in the German market and wide-ranging expertise, Deka provides investment support to pension funds, businesses, insurers, non-profit organisations, the public sector and, of course, the savings banks. Investors abroad also take advantage of Deka's range of services.

Deka's offering covers the entire value chain of institutional asset management and associated capital market services. In order to give professional clients the best possible support in their investment decisions, Deka also provides comprehensive information services and maintains an intensive dialogue in the form of specialist events such as the "Regulatory Radar" and the Deka Institutionell Investment Conference. As the *Wertpapierhaus* for the savings banks, Deka also offers insights and ideas on managing proprietary investments to over 300 savings banks in the form of the *Deka-TreasuryKompass*. Via the Deka Easy Access web platform, Deka provides savings banks and other institutions with access to and information on the capital markets, which they can link in real time to their own custody accounts.



For more information, go to: www.deka-institutionell.de/en/

Consistently customer-centred: specialist teams

Specialised teams develop ideally structured solutions for each customer group: pension funds, insurance companies, non-profit organisations, the public sector, corporates, family offices, financial institutions and savings banks. Each team has thoroughgoing expertise and long-term experience in its specialist area. Together with investors, Deka develops solutions and delivers the most appropriate products – while complying with the various regulatory frameworks.

Multifaceted and reliable: our advisory services

Deka is ready to advise its institutional customers on any matter and every strategic decision. That includes vital issues for professional investors such as strategy development, asset-liability management and asset allocation. With our structured process, we help customers perform a systematic analysis of risks, obligations and assets, understand their effects and put strategic decisions into practice. We also offer comprehensive advice and support on key issues for institutional investors, such as consultant relations and sustainability. In property investing, *Deka Immobilien-Kompass* offers support with investment decisions.

Customised and flexible: product solutions for every investor profile

Deka has the right solutions in its portfolio for the challenges that face institutional investors. Deka strategies for institutional investors are tailored to the individual risk/reward profile of the institution. Our offering includes fundamental and quantitative securities strategies, property strategies, capital market solutions, lending solutions and passive investing. Investment strategies are developed to meet individual requirements and implemented through bespoke investment vehicles. Such strategies include company-specific models for corporate pension arrangements. Modular structuring enables a flexible approach to be followed that focuses on the investor's specific needs.

Under one roof: asset servicing for centralised management and custody

For institutional investors and savings banks, Deka offers not only investment administration through a traditional master KVG solution, but also a comprehensive range of additional services such as securities lending, transition management, asset-liability studies and fiduciary management. Alongside fund administration, we have a keen eye for all essential requirements thanks to our expertise in risk and performance measurement and reporting. For more information, see the section on Deka's banking expertise.

More information in this supplementary report from page 17 onwards

ASSET MANAGEMENT BY DEKA

Tailor-made investing

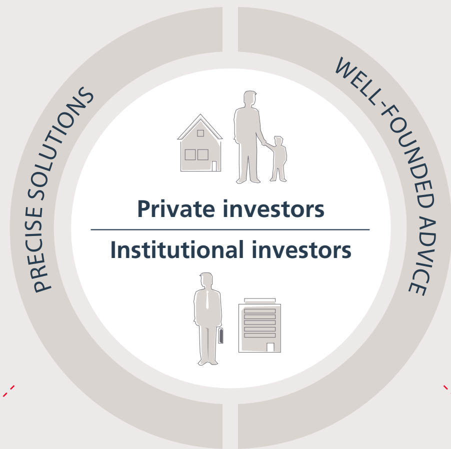
Persistently low interest rates have increased demand among investors for alternative types of investment. Deka's asset management offers a wide range of products for securities and property investing, with which savings bank customers and institutional customers alike can follow their investment strategies – with the right combination of opportunity and stability for each client. The foundation is provided by our comprehensive market expertise built on Deka Research, as well as our understanding of the requirements of the different customer groups.

Deka offers actively managed funds and investment products for securities and property, as well as exchange-traded funds (ETFs) for passive investing. As a result, investors can always find the right solution for their needs. What all of these solutions share is the high quality in securities investment that is the hallmark of Deka and the savings banks.

The best proof of this is offered by the excellent positions of Deka funds and investment solutions in well-known quality rankings, and the high scores achieved for management quality. In 2018, for the first time, Deka has been chosen for as "Fund Manager of the Year" by Finanzen Verlag and awarded its "Golden Bull". We scored highly for having the best product range among Germany's biggest fund providers. Achieving first place in the overall ratings is confirmation of the consistent good service provided by Deka's fund management, which contributed to our overall victory in Capital magazine's "Fonds-Kompass" awards last year. In the 2018 Capital-Fonds-Kompass awards, Deka was again one of the leading performers and was awarded five stars for the sixth year in succession.

Deka Asset Management – for quality in investing

Investment competence in all major asset classes under one roof



Securities

- Mutual and special funds
- Equity and bond funds
- Multi-asset funds and fund-linked investment management
- Quantitative Products and ETFs
- Alternative investments

Real Estate

- Open-ended property mutual funds
- Open-ended and closed-ended special funds
- Individual property funds
- Property funds of funds
- Club deals in the form of open-ended property funds or property funds set up through limited liability investment partnerships
- Credit funds

Excellent investment solutions for securities and property

The fundamental or quantitative active management of securities funds is Deka's core competence in the field of securities investment. Investment strategies and investment vehicles can be precisely tailored to the risk appetite and target returns of each private or institutional investor. Deka's quality- and stability-oriented approach, our wide range of securities- and property-based investment products and our services always meet the investing needs of both types of customer.

Investments available to private and institutional customers also include passive index funds (ETFs) and pension products, as well as alternative investments.

The potential of property investments to generate continuous and stable long-term growth is especially interesting to investors in times of low interest rates. Physical assets and a history of mostly low volatility in yields make property an attractive asset class for private investors and institutional customers alike. Institutional investors can also make use of the range of credit funds.

CURRENT AWARDS

Making sustainability investable

Sustainable strategies for investment are growing in importance. Investors increasingly want ESG (environment, social & governance) factors to be considered in their investment decisions. This is where Deka's sustainability funds for private investors come in. The *Deka-Nachhaltigkeit* (Deka Sustainability) family of funds for private investors currently comprises three funds, namely an equity fund, a bond fund and a mixed asset fund which combines the two (*Nachhaltigkeit Balance*). Other distinctive offerings such as the *Deka-Umwelt-Invest* equity fund, which invests solely in companies in the climate and environmental protection, water and renewable energy sectors, complete the range.

As part of its offering for institutional investors, Deka has developed funds and other investment solutions that are precisely tailored to the needs of investors with specific ethical requirements such as charitable foundations or churches.

For more information, go to:
http://s.de/xwk

DEKA'S BANKING BUSINESS

Meeting requirements – Assuring returns

The different sections of Deka's banking business provide savings banks, institutional customers and investment funds in asset management business with efficient access to the capital markets and finance. Based on the specific requirements of the individual customer, they offer a broad portfolio of products for the planning, control and administration of securities investments and balance sheet management. Banking and asset management are thus both essential parts of Deka's integrated business model.

The customer-centred approach to banking is grounded in the seamless integration of investment solutions with infrastructure and advisory services. This enables institutional customers to make use of synergies and economies of scale – and to exploit opportunities while ensuring regulatory compliance. Whether the challenge involves the balanced management of liquidity risk, market conformity and liquidity tests, or equity exposures for insurance companies under Solvency II, our combination of capital markets expertise, innovation and customer understanding ensures that institutional customers achieve their objectives in the best way possible.

The infrastructure and services for successful investing

Deka's banking services at a glance

Capital Markets

Products, solutions and infrastructure services for capital markets

- Securities lending and repurchase transactions
- Trading and structuring of capital market products
- Issues
- Commission business

Asset Management Services

Banking services for asset management

- Specific management services
- Digital solutions for the securities business of savings banks
- Online execution-only services

Financing

Special financing and property financing for savings banks and institutional customers, debt investment products

- Financing for savings banks
- Transport sector financing
- Infrastructure and export finance
- Property financing

Solutions for customer-centred asset management

Deka Asset Servicing is much more than a platform for securities administration. Deka offers many extra services in addition to master KVG and depository (custodian bank) functions, providing comprehensive support in securities business to savings banks and institutional investors – and helping them meet every demand of their end customers. Deka also provides assistance with the custody and administration of securities worldwide.

Control instruments such as the new Deka Easy Access tool enable you to keep track even in hectic market periods. Savings bank treasurers can use it to carry out effective analysis of their proprietary investments (*Depot A*) and react quickly where needed thanks to market information delivered in real time.

Infrastructure for successful multichannel business

As part of their digital multichannel management, savings banks can rely on digital solutions for their securities business in the "internet branch" of the savings banks. The "bevestor" digital development platform produces innovative solutions for securities business. Deka is continuously evolving the digital channel into an attractive offering for online securities investment, trading solutions and digital asset management, creating the basis for savings banks to continue growing their securities business and provide every customer group with solutions that meet their needs.

Linking customers and capital markets

Deka links customers to the global capital markets, and makes essential parts of the infrastructure for capital markets business available to institutional investors and savings banks. The business area is the central securities and collateral platform for the savings bank association, and delivers customised services in areas such as securities lending. Deka manages the structuring of capital market issues both for its own products and those of its customers.

Turning loans into attractive investments

Transportation, infrastructure, property and export finance – Deka is a high-quality provider of financing and the leading provider of refinancing to the savings banks. By participating in club deals or syndications arranged by Deka or investing in funds organised to this end, savings banks have access to a broad spectrum of investment opportunities for their proprietary investments (*Depot A*). Financing also supports business in the asset management area, for instance in property finance, where Deka concentrates on properties that are also focus areas for the property funds it manages and located in large, established markets in Europe, North America and Asia/Pacific.

Group management report 2017.

In the year of its centenary, DekaBank, the *Wertpapierhaus* for the savings banks, can look back on a successful financial year in 2017. The Deka Group ended the 2017 financial year with an economic result of €448.9m. Net sales hit a record at €25.7bn.

Strong financial ratios, a clear strategy and a sound business model form the foundations for sustainable growth.

Group management report

At a glance

In the year of its centenary, DekaBank, the *Wertpapierhaus* for the savings banks, can look back on a successful financial year in 2017. The Deka Group's economic result of €448.9m was 8.1% higher than the previous year's figure, with improved net commission income playing a substantial role.

The growth trend in securities business is continuing. Record net sales of €25.7bn, together with encouraging capital growth in our securities and real estate funds, caused total customer assets to rise to €282.9bn.

The D18 programme for the implementation of the *Wertpapierhaus* strategy, which we began in 2013, has made a considerable contribution not only to the sustainable turnaround of retail and institutional sales but also to the increase in demand for advisory and infrastructure services. By carrying out measures to boost sales in the savings banks and in online securities business, as well as to improve the quality of our products and services, Deka has carved out a strong position within the competitive field. This is reflected in the receipt of numerous accolades, such as our first-ever overall victory in Capital magazine's "Fonds-Kompass" awards.

The conclusion of the D18 programme at the end of 2017 was followed by the start of the successor programme, "DekaPro", in January this year. DekaPro takes up some of the themes of D18 and aims to continue the roll-out of our *Wertpapierhaus* strategy with an even stronger customer focus. The intention is to realise growth potential in our business with savings banks, savings bank customers and institutional investors. The programme also covers the optimisation of business processes, so that we can handle the higher volumes of business we are aiming for more efficiently and respond proactively to the opportunities and challenges created by regulatory change.

The success of the measures carried out in 2017 has enabled the Deka Group to create significant added value for the savings bank association. Other key ratios as at the end of 2017 underline the strong foundations of the *Wertpapierhaus*. These include a Common Equity Tier 1 capital ratio (fully loaded) of 16.7%, a leverage ratio (fully loaded) of 4.7% and a liquidity coverage ratio of 152.5%, well above the minimum requirements, as well as moderate risk capacity utilisation of 34.4% (based on overall risk-bearing capacity).

Information about the Deka Group

Deka Group profile and strategy

DekaBank is the *Wertpapierhaus* for the savings banks. The Deka Group is made up of DekaBank and its subsidiaries. Through its asset management and banking activities, it acts as a service provider for the investment, administration and management of assets, supporting the savings banks, their customers and institutional investors at every stage in the investment process. It also offers comprehensive advice and solutions both to the savings banks and to institutional customers outside the *Sparkassen-Finanzgruppe* on investing, liquidity and risk management, and refinancing.

Legal structure and corporate governance

DekaBank Deutsche Girozentrale is a German federal institution incorporated under public law with registered offices in Frankfurt am Main and Berlin. It is wholly owned by the German savings banks. 50%

of the shares are held via Deka Erwerbsgesellschaft mbH & Co. KG. The savings banks hold their interests via this company, which is owned by their regional savings bank and giro associations. The other 50% of the shares are held by the *Deutsche Sparkassen- und Giroverband* (DSGV).

The Deka Group strictly adheres to the principles of good and responsible corporate management. The corporate governance concept for the management and supervision of the Group ensures that the responsibilities of board and committees are clearly defined and enables efficient decision-making processes.

Divisional structure

The Deka Group reorganised its divisional structure with effect from the start of 2017. This led to enhanced governance and an even clearer separation at board level between banking business and asset management.

The two asset management business divisions, Asset Management Securities and Asset Management Real Estate, mainly focus on fund-based products and services. The Asset Management Services business division, which came into being at the start of 2017, focuses on providing banking services for asset management. Banking business is handled by the Capital Markets and Financing business divisions.

Corporate governance

DekaBank is managed collectively by the Board of Management, which continued to comprise five members as at the 2017 reporting date. Their specific areas of responsibility were reorganised as from the start of 2017 in line with the new five-division structure. Responsibilities as at the end of 2017 were thus as follows:

- CEO & Asset Management Securities: Michael Rüdiger (CEO)
- Savings Banks Sales & Marketing: Dr Georg Stocker (Deputy CEO)
- Risk (CRO): Manuela Better
- Finance (CFO), Treasury & Asset Management Real Estate: Dr Matthias Danne
- Banking business, IT & Human Resources: Martin K. Müller

Responsibility for Human Resources & Organisation was transferred from Martin K. Müller to Michael Rüdiger as from 1 January 2018.

The members of the Board of Management are supported by in-house management committees in an advisory capacity. In addition, DekaBank actively incorporates representatives of the *Sparkassen-Finanzgruppe* into its decision-making process via three specialist advisory boards, which advise the Board of Management, and six regional sales committees. The Board of Management uses their expertise and proximity to the market to develop business further.

The Administrative Board oversees the Board of Management and thus performs a supervisory role. It comprises shareholder and employee representatives as well as representatives from the *Bundesvereinigung der kommunalen Spitzenverbände* (German Federal Association of Central Municipal Organisations), who act in an advisory capacity. The Administrative Board's work is performed in part by the full Board and in part by various committees. To this end, the Administrative Board has established a General and Nomination Committee, a Risk and Credit Committee, a Remuneration Supervision Committee and an Audit Committee. The German Federal Minister of Finance is responsible for general governmental supervision.

Sustainable governance and non-financial statement

The Deka Group's sustainable governance is based on the strategic orientation of the savings banks. This provides the foundations for the ongoing development of the sustainability strategy, which has been in force since 2009 and was integrated into the business strategy at the end of October 2014. The same applies for the Code of Ethics, which was updated in October 2017 and now sets new areas of focus, emphasising the specific role model function of leaders and the growing significance of a sustainable product and service portfolio. The code establishes a binding framework to guide the actions of our employees. The Code of Ethics is also the basis for a corporate culture within the Deka Group that complies with the law, is open and transparent and focuses on added value. This is reflected in the code's core values of professionalism, responsibility, trust, collegiality, sustainability, diversity, communication and consistency.

The annual sustainability report provides detailed information on the sustainable management of the Deka Group. For the first time, this year's report includes the Deka Group's non-financial statement pursuant to the German CSR Directive Implementation Act (*CSR-Richtlinie-Umsetzungsgesetz*). The declaration sets out, in particular, targets, measures and due diligence processes for the environmental, social and employee concerns that are significant to the Group's business model, as well as for the upholding of human rights and the combating of bribery and corruption. As a result of a stakeholder survey carried out annually since 2015, sustainability reporting will henceforth place greater emphasis on "Sustainable products" and "Sustainable corporate governance".

See also: www.deka.de/deka-group/sustainability

The annual sustainability report including the non-financial statement does not form part of the Group management report. In accordance with the statutory publication deadlines under section 325 of the German Commercial Code (*Handelsgesetzbuch* – HGB), it is published by the end of April each year on the Deka Group website (www.deka.de/deka-gruppe/nachhaltigkeit), where it will remain accessible for at least ten years.

Business model

The business model of the Deka Group is characterised by close collaboration between asset management and banking business. The Group's asset management products comprise securities funds, property funds, credit funds and capital markets certificates, together with the associated asset management services for private and institutional investors. Such services include investment fund support for asset managers and support for institutional customers in their asset, capital, liquidity and risk management. In this regard, the Deka Group acts as finance provider, issuer, structurer, trustee and depositary (custodian bank).

The Deka Group's offering focuses on the requirements of the savings banks and their customers. Individual customers, high net worth private clients and – closely related to these – commercial and corporate customers of the savings banks constitute an important target group in this regard. The Deka Group also supports institutional customers – apart from the savings banks, these include insurers, pension funds, foundations, companies in various industries and the German public sector.

In addition to asset management activities in the narrower sense, the Deka Group also provides the execution of securities trading, custody accounts, asset servicing and depositary services. The range of advisory and other services for asset management purposes, which can be used by savings banks and other institutional customers, includes the bank's role as a liquidity and collateral platform, its securities lending services, support with the purchasing and settlement of securities and derivatives, and assistance with regulatory matters. The Deka Group also offers related supplementary services, such as the provision of market analyses, infrastructure services and market conformity tests.

In securities funds and real estate funds, the Deka Group primarily earns commission income in the form of management and transaction fees. Subject to regulatory requirements, some of this income is passed on as an "association payment" to the savings banks in their capacity as sales partners. Additional commission income is generated from banking transactions, including capital market activities. Interest income is obtained primarily from specialised financing and real estate finance, as well as from the Capital Markets business division and Treasury operations.

Deka Group strategy

Strategic objectives

The Deka Group's strategy as the *Wertpapierhaus* for the savings banks is geared towards:

- helping savings banks to grow their securities business via all sales channels with personal customers in various wealth and income brackets, and thus contributing towards cementing the significant role that the savings banks play in helping German households build capital, as well as
- helping institutional customers in Germany and abroad, including the savings banks, to achieve their business objectives via customised products and advisory and infrastructure services in the challenging market and regulatory environment.

The Deka Group thus regards itself as an organisation which is geared towards customer utility at every level in every field, and which focuses on responding to changing customer needs via agile processes for the evolution of investment products and banking services. This promise of performance is backed up by the strengths of an integrated business model that is founded on both asset management and banking.

In order to further embed our customer-centred outlook in our business model and the organisation as a whole, we began the DekaPro programme at the start of 2018. DekaPro is a package of key measures for the continued implementation of the *Wertpapierhaus* strategy – it drives forward innovation and prioritises resources. The overall approach is closely linked to growth targets for each customer segment as well as to process and cost-effectiveness targets. These targets also cover areas such as coping with regulatory burdens and digitalising IT while simultaneously reducing complexity. DekaPro follows on from the D18 transformation programme, which contained the initiatives that have formed DekaBank into the *Wertpapierhaus* for the savings banks over the past few years. D18 was successfully brought to a close at the end of 2017.

Strategic measures

Strategic measures aim to manage growth while maintaining a customer-centred outlook, as well as to improve value creation processes and cost structures. Thanks to the consistent implementation of D18, the Deka Group has already carved out a good starting position in its core operating areas over the past few years.

Exploiting potential in retail business

In retail business, too, the Deka Group follows a customer-centred approach geared towards individual needs and the personal wealth and income of savings bank customers. In the year under review, demand for investment fund savings plans and pension products increased. Another focus area was structured capital investment products for individual customers and investment products for the personal and business assets of private banking and corporate customers. In the certificates business, DekaBank has successfully positioned itself as a quality provider. Tribute to this achievement came in the form of two further awards for best primary market issuer, which we received from Scope Analysis in November 2017 and at the 2017 Zertifikate Awards.

Our ongoing dialogue with the savings banks has been further enhanced, particularly via the DekaNet B2B platform. The platform provides training in a variety of formats to savings bank advisory staff and DekaBank sales directors and managers on new product developments and regulatory challenges in the investment and advisory process. DekaBank works continuously with savings bank associations and the banks themselves to improve the investment and advisory process in line with customer service and best practice.

We have also substantially expanded the assistance we provide for savings banks with their online securities business. The focus is on providing integrated solutions for multichannel sales which link together everything from marketing to online account opening. As of the end of 2017, many savings banks have already incorporated the available online services into their internet banking offerings as a result. As well as the investment finder, a complete online securities trading process is available to the savings banks, so that customers never have to switch to an alternative communication channel. DekaBank's subsidiary bevestor GmbH has developed a first digital asset management solution, which was rolled out in 2017 in the course of the Family and Friends Phase. The full takeover of S Broker, which took place in 2016, also represented an important step towards the modular implementation of our custody account strategy. S Broker's product range has a broad spectrum of products and services that meet the demands of online brokerage customers.

The DekaPro measures for the retail segment aim to help savings banks to exploit potential and thus continue expanding their securities business. One important aspect of this is to streamline the interaction of the savings banks' branch-based approach with multichannel banking. The intention is to mould the solutions we offer more closely to individual customer segments, based on an analysis of customer needs. In building up online securities business and expanding the associated product packages, we will take account of the needs of execution-only customers and those of the savings banks' multi-channel customers. Access to the services and to the information customers need to make their investment decisions is to be simplified at the same time.

Growth in institutional customer business
During 2017, we again substantially expanded our services for institutional customers within and outside the *Sparkassen-Finanzgruppe* under the *Deka Institutionell* sales brand. In addition to the savings banks themselves, our focus was primarily on pension schemes, insurance companies, non-profit organisations, family offices, foundations and municipalities. Sales cooperation activities with the savings banks were substantially increased to this end.

Individual products from the asset management and banking businesses have been embedded in a holistic advisory approach. The product and service range for the proprietary trading of the savings banks and other institutional investors has been expanded to include additional investment products that add alternative investments to the investment mix in order to boost returns. The Deka Alternative Investments (DALI) platform was expanded to include new fixed-lifetime funds for higher-yield bonds. In addition, a series of bond funds managed using a quantitative factor-based approach was set up. During the year, Deka Investment GmbH was ranked for the first time as Best Master KVG in the customer satisfaction survey carried out by the rating agency Telos.

On the banking side, services were expanded in particular with regard to structured certificates and infrastructure services for the management of *Depot A*, i.e. the proprietary trading portfolios of savings banks. The new Deka Easy Access (DEA) tool enables savings bank treasurers to carry out analysis, management and trading on a single platform. In addition, a revised, more standardised outsourcing model is now available for the market conformity check required by the regulator, which is also attractive for institutions with small business volumes. In the lending business, services were expanded in connection with the structuring of project finance.

The new measures that have been introduced with DekaPro aim to significantly increase market share with institutional investors outside the savings bank sector, while cementing our position as the first-choice partner for the savings banks. Step one will be to hone the requirements profiles for all five business divisions and institutional sales, based on an analysis of customer needs within the target segments. The core initiatives introduced previously under D18 will be continued, with an approach that is customer-centred and closely geared to regulatory requirements. This will involve, for instance, the further development of Solvency II-compliant portfolios for insurance companies and *Depot A* (proprietary trading) portfolios for savings banks that comply with LCR rules. The range of platform solutions such as Deka Easy Access will also be enhanced.

Process optimisation
The reduction of complexity – including through automation and organisational streamlining – will remain a focus area for the Deka Group under DekaPro. The aim is to be able to handle a higher volume of business with a stable level of resources. Optimising the product and service portfolio will play a role in achieving these economies of scale. It is also important to implement regulatory requirements at reasonable cost.

The Deka Group adjusted the business profiles of its subsidiaries during the year. This mainly concerned the strategic development of DekaBank Deutsche Girozentrale Luxembourg S.A., which is to be converted into a branch of DekaBank in order to further integrate our operations in Luxembourg and Frankfurt/Main. In addition, our Milan and Vienna offices were closed during the year and the Tokyo office is set to be closed down in 2018. The London office is meanwhile to be upgraded to branch status.

Digital transformation
Digital transformation will continue to be a focus area for the Deka Group's operations. The aim is to achieve a further customer-centred evolution of the business model, as well as continuous process optimisation. The ultimate goal is to increase customer utility in the retail and institutional segments through standardised digital processes and the use of new technology. Digital transformation thus complements our digital multichannel management activities, which are aimed at digitalising our interactions with customers.

Awards
Quality of products and advice is fundamental to the joint success of the Deka Group and savings banks in securities business, and is key to the Deka Group's positioning as the *Wertpapierhaus* for the savings banks. Various awards provide further testimony to the excellence of its products.

Deka Investment was chosen as "Fund Manager of the Year" for the first time in 2018, scoring highly for having the best product range of Germany's major fund providers. Achieving first place in the overall ratings is confirmation of the consistent good service provided by Deka's fund management, which also contributed to our overall victory in Capital magazine's "Fonds-Kompass" awards last year. The award was granted by the publisher, Finanzen Verlag. Shortly afterwards, *Capital-Fonds-Kompass* issued its 2018 quality rating for Deka, again awarding the maximum five-star rating to Deka Investment. Deka is one of only four firms to receive the maximum rating in the past year.

In addition, thirteen Deka funds were honoured at the EuroFund Awards, ten of them taking first place in their category.

At the Scope Investment Awards 2018, *Deka-Nachhaltigkeit Renten* (Deka Sustainable Bonds) was the winner in the "Bonds EUR" class, while *Mainfranken Strategiekonzept* (Mainfranken Strategy Concept) won in the "Balanced Global Flexible" class.

At the Scope Alternative Investment Awards, Deka Immobilien was honoured as Best Asset Manager in the Retail Real Estate Europe category. The Scope award was a tribute to Deka Immobilien's skill in asset management, which has been visible especially in the ongoing quality increases in the *Deka-ImmobilienEuropa* and *WestInvest InterSelect* funds.

DekaBank was also chosen as best provider in the Primary Market and Certificate of the Year categories in awards granted by the website *Der Zertifikateberater* ("Certificate Adviser") in conjunction with n-tv, the Frankfurt Stock Exchange and the Stuttgart Stock Exchange. As in the previous year, voting for "Certificate Issuer of the Year" was extremely tight, with Deka taking second place in this category for the third year in succession.

Ongoing development of the sustainability strategy
In recent years, the Deka Group has grown to be one of the highest-rated banks in the field of sustainability.

When putting into practice sustainable corporate governance, the Deka Group acts in the interests of

- its customers – with superior-quality products and services,
- its shareholders – by ensuring an attractive corporate value, sustainable dividend performance and a conservative risk profile, and
- its staff – as a sought-after employer that provides a high level of employee satisfaction.

In doing so, it respects the regulatory and social environment while imposing high ethical standards on itself and operates in a way that is economically, ecologically and socially sustainable. With this strategy, it creates a high level of transparency in its business model and puts an emphasis on benefits to society.

The Deka Group manages sustainability in a holistic manner, as a responsibility that cuts across all areas of the Bank. Alongside the recognition of national and international standards (UN Global Compact, Equator Principles and the German Sustainability Code), the continued improvement of the sustainable product and services portfolio is growing ever more important. During the year, the Deka Group also signed the Frankfurt Declaration. Signatories to the declaration, which is an initiative begun by Deutsche Börse AG, state their joint intention to create sustainable infrastructures in the financial sector.

With the German Federal Government's "Climate Protection 2050" plan in mind, the Deka Group plans to evaluate CO_2 emissions along the value chain for its entire business. Modular step-by-step plans are being developed on this basis with the objective of reducing the identified CO_2 emissions over the medium to long term in line with national and global climate targets.

See also: www.deka.de/deka-group/sustainability

The comprehensive approach to sustainability is being implemented across four areas of activity. Accompanying these activities with communication measures and presenting them in a transparent way (including in the annual sustainability report and in the sustainability section of the website (www.deka.de/deka-group/sustainability) are key elements in responsible corporate governance.

Sustainable products: The Deka Group observes internationally recognised sustainability standards in its product development, thus responding to the growing social and environmental demands of institutional and private customers. Sustainability aspects are taken into consideration for securities- and property-based investment products, as well as in financing and proprietary investments. A Group-wide specialist team is responsible for creating customer- and investment-specific solutions. Its services include sustainability consulting, active portfolio management with a standard or individually customised sustainability filter and corporate governance. Within this framework, Deka upholds the interests and voting rights of its fund investors in accordance with the conduct of business rules set by the BVI (German Investment Funds Association) and takes an active role at the general meetings of investee companies.

Sustainable HR management: As a sought-after, responsible employer, the Deka Group attracts highly qualified staff with the aim of fostering their long-term loyalty to the company. The promotion of key qualifications through practical experience, proactive support for equal opportunities for women and men and an active healthcare management policy are thus provided as a matter of course. In order to underscore these ambitions, Deka made a commitment in 2017 to implement the UN Women's Empowerment Principles, which lay down principles for ensuring the equality of women at work.

Sustainable banking: The Deka Group is committed to minimising the impact of its business operations on the environment. In this respect, it acts in accordance with the relevant environmental regulations and operates a certified environmental management system (DIN EN ISO 14001:2015; energy audit under DIN EN 16247-1).

Corporate citizenship: The Deka Group promotes architecture, academia, music, sports, the arts and social projects. Either on its own or together with other entities in the *Sparkassen-Finanzgruppe*, it focuses on projects across Germany such as the International Highrise Award of the City of Frankfurt, the Dresden State Art Collections (*Staatliche Kunstsammlungen Dresden*), the German Olympic Sports Confederation and the Arche foundation in Frankfurt.

The Deka Group's services have been audited by leading national and international rating agencies specialising in sustainability, and have been awarded high ratings. As a result, rating agency Sustainalytics has now awarded the Deka Group its top rating of "Leader", and the Group is ranked 11th among all the banks rated by Sustainalytics worldwide.

Organisational structure

The Deka Group's activities are organised into five business divisions. Deka's asset management activities are handled by the Asset Management Securities and Asset Management Real Estate business divisions. The Group's banking business is covered by the Capital Markets and Financing business divisions. The fifth business division, Asset Management Services, focuses on providing banking services for asset management. The business divisions work closely with one another and with the sales departments and corporate centres. They form the basis for the Deka Group's segment reporting under IFRS 8.

Asset Management Securities business division

The Asset Management Securities business division focuses on the active management of securities funds as well as on investment solutions and services for private investors and institutional customers. In addition, passive investment solutions are also offered.

The product range comprises

- actively managed mutual securities funds following fundamental and quantitative strategies in all major asset classes, along with fund savings plans,
- products relating to fund-based asset management, including *Deka-Vermögenskonzept* (Deka Wealth Concept), funds of funds such as *Deka-BasisAnlage* (Deka Basic Investment), and fund-linked private and company pension products,
- special funds for traditional and alternative investments, advisory/management mandates and asset servicing offerings with an emphasis on master KVGs for institutional customers, and
- passively managed index funds (exchange-traded funds – ETFs).

The product range is supplemented by bespoke and standardised securities services, for which the division works closely with the Asset Management Services business division.

Products and solutions are marketed under the Deka Investments, Private Banking and Deka Institutionell brands.

The division's strategic objectives are to expand its market position in retail activities and to achieve profitable growth in institutional business.

Asset Management Real Estate business division

The Asset Management Real Estate business division offers real estate investment products for personal and institutional investors. It also offers credit funds and is an important partner for the savings banks in commercial property investment. The division focuses on the office, shopping, hotel and logistics segments.

Its services comprise the purchase, sale and management of real estate and all other services for real estate funds, as well as the growth-oriented development of marketable commercial properties in liquid markets, and active portfolio and risk management.

Products offered by the division include open-ended real estate mutual funds as well as special (i.e. private) funds with either an open-ended or closed-ended structure, single-investor real estate funds, real estate funds of funds, club deals in the form of open-ended property funds or limited investment partnerships, and credit funds that invest in real estate, infrastructure or vehicle financing.

The division has set itself the target of further expanding its market position in both retail and institutional business while maintaining strict compliance with quality and stability commitments.

Asset Management Services business division

The Asset Management Services business division provides banking services for asset management.

The Depositary subdivision provides a full range of depositary services, from the regulatory control function under the German Investment Code (*Kapitalanlagesetzbuch* – KAGB) to securities settlement and reporting, both for Deka Group funds and for investment management firms outside the Group. Depositary functions are also offered to institutional end investors. Asset Management Services works closely with the Capital Markets business division on services such as commission business, collateral management and securities lending.

The Digital Multichannel Management subdivision develops and implements digital solutions for securities business in the "internet branch" of the savings banks, in line with the savings banks' multichannel strategy. In the retail segment, it also takes legal responsibility for the management of DekaBank custody accounts. A multi-platform online securities offering, including stock exchange and securities information tools, is made available to the savings banks, using DekaNet as a centralised information and sales platform. S Broker tailors its offering to the needs of online execution-only customers and frequent traders via the DirektDepot and DepotPlus custody accounts. In addition, the S ComfortDepot, which takes legal charge of retail customer custody accounts (*Depot B*), is available on request to a large number of savings banks. The "bevestor" digital development platform produces innovative solutions for online securities business.

The division has set itself the objective of continuing to develop the digital channel into a persuasive offering for online securities investment, trading solutions and digital asset management and thus making an important contribution to maintaining the long-term stability of retail customer business. The depositary business is to remain clearly positioned in the market and responsive to the rising trend in mutual funds, both among Deka Group investment managers and via third-party mandates.

Capital Markets business division

The Capital Markets business division is the central product, solution and infrastructure provider in the Deka Group's customer-driven capital market business, and also acts as a service provider and driver of innovation in this area. As such, the division provides the link between customers and the capital markets. The Capital Markets business division offers investment solutions to both retail and institutional customers and helps customers to put their asset management decisions into practice.

With its tailored range of services relating to securities repurchase transactions, securities lending and foreign exchange trading, the business division also acts as the central securities and collateral platform for the savings bank association. The division thus enables customers to carry out transactions in all asset classes. It serves as a centre of competence for trading and structuring capital market products as well as for DekaBank's issuance business. It also offers clearing services to institutional customers, thus helping them to fulfil regulatory requirements efficiently.

The activities of the Capital Markets business division are combined in three departments:

- The Collateral Trading unit brings together securities lending products, securities repurchase transactions and customer-oriented currency trading.
- The Trading & Structuring unit is the Deka Group's centre of competence for trading and structuring capital market products in all asset classes, for both bond and certificate issues. The strategic investments section handles all Deka Group securities investments that do not form part of the liquidity reserve.
- The Commission Business unit executes trades in exchange-traded securities and derivatives on behalf of customers within and outside the Group.

The division aims to offer strategically significant functions to savings banks and other institutional customers as a solution and infrastructure provider while making use of synergies and economies of scale. It responds to regulatory requirements by optimising the business portfolio on an ongoing basis and by efficiently managing regulatory capital requirements.

Financing business division

The activities of the Financing business division are carried out within two subdivisions.

The Specialised Financing subdivision concentrates on aircraft and ship financing (vehicle financing), energy, grid, utilities, transport and social infrastructure (infrastructure financing) and financing covered by export credit agencies. It also has a leading position in the funding of German savings banks across all maturity bands. The core portfolio is kept separate from the legacy portfolio, which contains loans that were made before the credit risk strategy was revised in 2010 and do not conform to the current strategy. The intention is to selectively extend the core portfolio, while reducing legacy business in a manner that safeguards assets.

The Real Estate Financing subdivision provides lending for commercial real estate. Lending is focused on marketable properties in the office, retail, hotel and logistics segments in liquid markets in Europe, North America and Asia/Pacific. The subdivision aims to expand new business in these segments and cement its position as a sought-after financing partner for the most important international real estate investors.

Lending is taken onto our own balance sheet via the banking book, as well as being packaged as an investment product for other banks or institutional investors via club deals or syndications. Priority is given to placements within the *Sparkassen-Finanzgruppe*.

The division seeks to expand new business in its defined core segments and asset classes. In this way, it aims to cement its position as a quality leader in liquid markets. DekaBank continues to act in its role as a refinancing partner for the savings banks.

Sales

Savings Banks Sales & Marketing

Savings Banks Sales and Marketing focuses on comprehensive sales support for the savings banks for business with retail and commercial customers across all sales channels.

In line with the general division of work between the Group and the banks, the Deka Group provides products and services for retail sales to the savings banks, while the saving banks approach their customers directly and provide customer advice and support. To assist the savings banks in their customer relations, the Deka Group's marketing activities are also aimed directly at end customers. The objective is to kindle active demand among end customers for the savings banks.

- The Sales Management, Marketing and Private Banking unit systematically analyses the needs of customers and savings banks as well as competitor and market developments. It uses its findings to develop forward-looking sales and marketing measures to support the savings banks.
- The Product and Market Management unit is responsible for all matters in relation to the funds, certificates and wealth management solutions on offer and in relation to private and occupational pension products, throughout the entire product life cycle.

To ensure nationwide support, Sales is divided into six sales regions in Germany. Sales directors maintain regular dialogue on markets and customers with the savings banks and associations. Deka also makes sales associates and other specialists available in Frankfurt/Main, who can assist savings banks with their local marketing and sales activities. They also provide training and coaching measures to help savings banks train their staff members in the securities business.

Institutional Customer Sales

The Institutional Customer Sales unit handles business both with savings banks and with professional clients and counterparties outside the savings bank sector (institutional investors). A focused internationalisation strategy is also being implemented. Customer advisers adopt a comprehensive approach that covers all products and services offered by the Deka Group across all business divisions. The unit acts as a solutions provider for its customers, bringing together the service range of all business divisions under one roof. During the year under review, the *Deka Institutionell* brand was revamped. This included positioning the brand so that it centres upon customers and their needs.

In the savings bank sector, the Institutional Customer Sales team is available to individual savings banks as a management partner, and develops immediately viable solutions for proprietary business (*Depot A*) and overall bank management. These solutions are based on comprehensive analyses of the earnings and risk situation and are supplemented with advice and support.

- The Institutional Customers – Savings Banks & Financial Institutions unit brings together all sales activities in proprietary business with savings banks and other banks. In addition, the unit develops methods and applications for interest rate book management and asset allocation for institutional customers. The comprehensive advisory approach also encompasses capital markets business for all customer groups.
- The Institutional Investors unit handles business with insurance firms, companies, public bodies, non-profit organisations and international investors. It also manages relationships with consultants.
- The Institutional Customer Sales Management unit is a cross-cutting function that provides support to customer relations staff with regard to product service, sales management and regulatory matters.

Corporate centres

The Treasury corporate centre acts as a resource manager for the Deka Group. As such, Treasury manages the Group's liquidity reserves, maintaining a clear focus on liquidity. It also assists the Board of Management with the management of guarantee risks from DekaBank funds and fund-related products, manages market price and counterparty risks in the banking book, manages group liquidity and Deka Group refinancing across all maturities, and is responsible for asset-liability management, including equity instruments. By setting transfer prices for the whole Group, Treasury helps to ensure both that the balance sheet is evenly structured and in line with strategy, and that transactions are managed and calculated on a source-specific basis. In its role as resource manager and in the associated control functions, Treasury provides services to help the business divisions achieve their targets. It can suggest measures to this end and also take control of risk management matters on their behalf if requested.

Alongside Treasury, other corporate centres support Sales and the business divisions. As of the reporting date, these were Compliance, Finance, Business Services, IT, the Credit Risk Office, Human Resources & Organisation, Legal, Internal Audit, Risk Control, Corporate Development, the Corporate Office & Communications and Risk Control Capital Market Funds.

Non-core business

Non-core business comprises business activities which the Group no longer intends to pursue. This will be the last year in which non-core business is disclosed as a separate segment, as the managed winding-down of these activities while safeguarding assets is now largely complete. The remaining portfolios were transferred to the Capital Markets business division as of 1 January 2018.

Major companies and locations

The Deka Group's business is managed from the head office in Frankfurt/Main. The major investment management companies are also located there. WestInvest Gesellschaft für Investmentfonds mbH is based in Düsseldorf. LBB-INVEST has its headquarters in Berlin, while S Broker is based in Wiesbaden and S-Pensionsmanagement GmbH (DekaBank shareholding: 50%) in Cologne. DekaBank Deutsche Girozentrale Luxembourg S.A. in Luxembourg is the most important international subsidiary. The Deka Group also maintains companies or representative offices in London, New York, Paris, Singapore and Tokyo.

The Deka Group will restructure its Asset Management Securities business in the second quarter of 2018. All asset management products will henceforth be operated by Deka Vermögensmanagement GmbH (DVM), based in Frankfurt/Main. DVM will be the new name for LBB-Invest GmbH, which has been a wholly-owned subsidiary of DekaBank since 2014. Funds of funds, standardised fund-based asset management and discretionary asset management at the Deka Group will all be housed within DVM from the second quarter of 2018 onwards. DVM will also operate boutique funds making use of the expertise of specialist third-party asset managers.

Deka Investment GmbH will henceforth focus on the fundamental and quantitative management of public mutual funds, special funds, ETFs and asset servicing. Deka-managed equity and bond funds that are currently housed within LBB-INVEST will therefore be transferred to Deka Investment GmbH with effect from 1 April 2018.

Markets and influencing factors

In securities-related asset management, the economy, money market and capital market environment, the sales environment for the *Sparkassen-Finanzgruppe*, customer-driven trends and product quality all strongly influence business development and profit performance. These factors have an impact on sales to retail and institutional investors as well as on the performance of portfolios. In addition to this, real estate asset management is largely influenced by the situation and developments in commercial property investment and letting markets.

Developments in the money and capital markets are also highly relevant to the Capital Markets and Financing business divisions. For example, customer demand for liquidity partly depends on the volume of liquidity made available by the European Central Bank (ECB). In addition, the situation in the market for fixed-income securities impacts on the issuing activities of the Capital Markets business division. Lending business is affected to some extent by economic trends in the sectors financed and by market interest rate developments.

Changes to regulatory requirements are of key significance for all business divisions and corporate centres. An overview of current economic conditions is provided in the economic report.

The Deka Group's business divisions all have a strong position in their respective markets. With fund assets (according to the BVI, the German Investment Funds Association, as at 31 December 2017) of around €125.9bn and a market share of 13.5%, Deka is Germany's fourth-largest provider of mutual securities funds. In terms of mutual property funds, with fund assets (according to the BVI, as at 31 December 2017) of around €28.3bn and a market share of 31.7%, it occupies second place in Germany.

With issue volume once again rising significantly during the year, at the end of 2017 the Deka Group had reached a market share of 16.0% in the primary market for investment certificates and was thus ranked second in Germany. At the same time, Deka has established itself as the market leader in reverse convertible bonds and is the third-largest provider of express certificate structures.

Alongside its own issues, DekaBank is also a significant solutions provider and adviser on issues for customers. DekaBank is market leader in this regard in the segment for the financing of German federal states. The Bank also has a significant position in the repo and stock lending markets and is no. 2 in Europe in terms of trades settled on RepoClear.

Risk and profit management at the Deka Group

The Deka Group aims to achieve a return on equity that is at least sufficient to secure corporate value, on the basis of an appropriate balance between risks and rewards over the long term. Non-financial and financial performance indicators are used in the Bank's management. Comprehensive reporting on the Deka Group's management indicates at an early stage whether strategic and operational measures are successful and whether the Deka Group risk/reward ratio is within the target range.

Financial performance indicators

The Deka Group's earnings, equity and risk management are essentially illustrated by three key financial indicators.

The economic result is the key in-house management and performance indicator within the meaning of IFRS 8 and is based on the IFRS figures. In addition to total profit before tax, it includes movements in the revaluation reserve before tax as well as the interest rate and currency related measurement result from original lending and issuance business. The interest expense on Additional Tier 1 bonds, which is reported directly within equity (Additional Tier 1 capital), is also included in the economic result. Account is also taken of contingent future charges where the likelihood of occurrence is considered to be "possible" but for which a provision cannot be recorded under IFRS due to the lack of sufficient concrete evidence. The aim of the adjustments to the profit or loss before tax reported under IFRS is to reflect actual growth during the period under review.

See also: Segment reporting, pages 112 ff.

The economic result has been used in external reporting at Group and business division level since 2007. For a reconciliation of the economic result to profit before tax under IFRS, please refer to the segment reporting in note [3], which shows the measurement and reporting differences in the "reconciliation" column. This ensures that it is possible to reconcile the figures presented with profit before tax under IFRS.

See also: Changes in regulatory capital (own funds): pages 51 ff.

The Common Equity Tier 1 capital ratio is used as a key performance indicator for assessing the adequacy of the Deka Group's own funds in line with regulatory requirements. It is therefore also of major importance for rating agencies' assessments of the Deka Group. The Common Equity Tier 1 capital ratio is defined as the ratio of Common Equity Tier 1 capital to risk-weighted assets (RWA) for all relevant credit, market and operational risk positions plus the credit value adjustment (CVA) risk. Risk-weighted assets are managed in line with the Deka Group's strategy, the targeted balance sheet structure and the capital market environment. In accordance with the provisions of the Capital Requirements Regulation (CRR) and the German act implementing the EU Capital Requirements Directive (CRD IV), capital ratios are reported both on a phase-in basis (i.e. applying the transitional provisions) and on a fully loaded basis (disregarding the transitional provisions). To supplement these, further regulatory key ratios are monitored, including the leverage ratio and liquidity coverage ratio (LCR).

See also: Overall risk position in the 2017 financial year pages 74 ff.

A key risk management parameter is the utilisation of risk capital as allocated in the form of risk appetite, applying the liquidation approach. The monthly risk-bearing capacity analysis involves comparing the Deka Group's risk capital reserved for monitoring capital allocation, which can be used to cover losses, with total risk as determined across all risk types that have an impact on profit or loss. This makes it possible to establish whether total risk limits have been adhered to at Group and divisional level.

Non-financial performance indicators

Non-financial performance indicators relate to various aspects of the bank's operations and are an indication of the success of the products and services of the business divisions in the market and the efficiency of business processes.

"Net sales" is the key indicator of sales success in asset management and certificates. This figure essentially consists of the total direct sales volume of the Deka Group's mutual and special funds, fund-based asset management, funds of partner organisations, master funds and advisory/management mandates, ETFs and certificates. Net sales performance in investment fund business corresponds to gross sales performance less redemptions and maturities. Sales generated through proprietary investment activities are not counted. Redemptions and maturities are not taken into account for certificates, since in the certificates business the impact on earnings primarily occurs at the time of issue.

The "total customer assets" performance indicator includes the income-relevant volume of mutual and special fund products (including ETFs) in the Asset Management Securities and Asset Management Real Estate business divisions, direct investments in the funds of partner organisations, the portion of fund-based asset management activities attributable to partner organisation funds, third party funds and liquidity, and also advisory/management mandates. It also includes the volume attributable to certificates and externally managed master funds. Total customer assets have a significant impact on the level of net commission income. They are reported at Deka Group level by customer segment and product category.

Trends in the two key non-financial performance indicators during the reporting year are described in the context of business development and profit performance at Deka Group level and at the level of the Asset Management Securities, Asset Management Real Estate and Capital Markets business divisions.

Economic report

Economic environment

The environment for asset management was positive overall during the year under review. The robust macroeconomic situation, together with rising corporate profits, bolstered global stock markets and led to positive all-round performance. This, combined with interest losses in real terms on deposit products, prompted German households to give a higher weighting to securities investing in their savings and pension provision. Funds under management in the retail funds segment rose due to both net inflows and rising stock prices, increasing the opportunities for profit in asset management. Given the interest rate situation, savings banks and other institutional investors also went in search of well-designed investment strategies that combine performance with cost-efficient regulatory compliance. This resulted in sustained strong demand for special funds and discretionary mandates within the context of an overall service and advisory approach.

The banking business again faced tough challenges due to the expansionary central bank policy in the eurozone. As in previous years, low market interest rates, low bond yields and a high liquidity supply put pressure on short-term capital markets business and on lending. On the other hand, the low interest rates and narrow spreads led to high level of activity in terms of debt issues by both public bodies and corporates.

Brexit, i.e. the impending exit of the United Kingdom from the European Union, had no material impact on either business or results in Deka's business divisions. Nevertheless, Brexit increases the political risks that can undermine financial market stability and drag down the overall economic situation. The long-term effects on market infrastructure can only be estimated at present. Further developments will therefore be closely watched. Full account of Brexit-related risks is also being taken in risk management, in particular as regards the modelling of stress scenarios.

Macroeconomic conditions

Global growth regained traction in the year under review, after having fallen to 3.2% – the lowest level since the financial crises – in 2016. The 2017 financial year was marked by the low-interest policy of the European Central Bank, continued low inflation rates and the interest rate rises made by the US Federal Reserve. Nevertheless, corporate profits rose and unemployment was brought down in large parts of the world. Thanks to solid exports and increased consumer confidence, overall business and economic performance in the industrialised nations was positive in 2017. Among the emerging markets, China in particular recorded strong economic growth. According to estimates by Deka economists, global gross domestic product grew by 3.7% over the year, following on from growth of 3.2% in 2016.

In the eurozone, low interest rates were among the factors enabling an increasing number of businesses to obtain cheap lending in the capital markets, which in turn helped propel the overall economy forward. Growth in the eurozone continued to rest on sound foundations in the domestic economy. The macroeconomic upswing was noticeable in the labour markets: unemployment in the European Union sank to 8.7% in December, the lowest figure recorded since January 2009. Certain European purchasing managers' indices reached their highest level for several years. Depreciation of the euro relative to the US dollar boosted the European economy up until the final quarter, as the majority of European exports are settled in dollars. By contrast, the rising value of the euro in the final quarter of the year diminished the ability of the eurozone countries to sell in global markets. This weakened the European economy, as higher product prices inhibited exports.

Despite the encouraging economic situation overall, performance in the individual European countries was a mixed bag: whilst Germany recorded GDP growth of 2.2%, GDP rose by only 1.7% in the UK, 1.9% in France, 1.5% in Italy and 1.5% in Greece. Contrary to assumptions, Catalan efforts to achieve independence did not have a negative effect on growth in Spain (3.1%).

The positive performance overall was matched by an improvement in sentiment indicators. A survey conducted by the European Commission found that economic sentiment in the eurozone rose constantly, reaching a level of 115.3 points in December. This was 8.0 points higher than the level a year earlier. Economic sentiment in the eurozone thus stood at its highest level since October 2000.

After a weak start to the year, the US economy also gathered pace somewhat in the second quarter. Full employment was in evidence in the labour markets in 2017 with an unemployment rate of just 4.1%, while corporate capital spending increased. Although economic activity in the US was temporarily hit by Hurricanes Harvey and Irma, the overall development was steady, thanks mainly to good consumer spending.

Purchasing managers' indices in emerging markets rose in the past year, which – along with a falling risk of inflation – supports a picture of stable economic growth. A few factors continue to inhibit the growth rate, however, such as high levels of personal indebtedness and increased reluctance on the part of lenders. In addition, the interest rate rises in the US led to a worsening of borrowing terms in emerging markets too. Heightened tensions with North Korea, meanwhile, largely left no trace on the markets in emerging nations.

In 2017, China recorded positive economic growth and exceeded GDP growth targets, in spite of ongoing structural transformation. The country closed 2017 with GDP growth of 6.9%, which had a positive impact on the entire Asian region. In the other emerging markets, Russia and Brazil largely succeeded in coming out of recession in 2017. Brazil benefited from strong exports as well as increased domestic demand.

Sector-related conditions

Trends in money and capital markets

Securities holdings in the banking system again rose over the course of 2017, as did the surplus reserves of the European Central Bank (ECB). Owing to lower new issues of covered bonds, the ECB was increasingly confronted with the problem of how to realise its desired level of bond purchases. Furthermore, various redemptions fell due in 2017, meaning that the ECB had to reinvest in order to restock its portfolio.

While the US Federal Reserve cautiously maintained its course of raising interest rates, the ECB took the first steps towards a gradual scaling-back of its expansionary monetary policy, notwithstanding continued low inflation. In March 2017, the ECB cut the volume of its bond purchases to €60bn a month. Bond purchases are to be halved to €30bn a month as from January 2018. At the same time, the bond purchase programme has been extended until at least September 2018. A decision on whether to prolong it beyond September has not yet been taken.

Equity markets performed positively, recording substantial gains amid little volatility. They thus proved robust against the political uncertainties caused, among other things, by the French and Dutch elections, the protracted and ultimately fruitless preliminary talks on the "Jamaica" coalition in Germany, the difficult negotiations on the shape of Brexit, and the North Korea crisis.

Thanks to rising corporate profits and positive sentiment indicators, the DAX German equity index rose almost constantly throughout the year, reaching an all-time high of 13,526 points on 7 November 2017. As the euro appreciated, however, the DAX was forced to surrender some of its gains in the final quarter and ended the year just below 13,000 points.

In the UK, uncertainty over Brexit remained high. After the third round of EU negotiations collapsed, the British pound fell to its lowest level against the euro since the financial crisis in 2008/2009. This had an inflationary effect on consumer prices. As the economy meanwhile performed surprisingly well, this led to a raising of the Bank of England's base rate.

During 2017, the Fed continued its gradual retreat from an expansionary monetary policy and raised its base rate by a total of 75 basis points in three stages in March, June and December, to a new spread of 1.25%–1.50%. Owing to reduced inflation forecasts, yields on US Treasury Bonds remained at a low level. In the US, the stimulus expected from a more expansionary fiscal policy outweighed concerns that the Trump administration will adopt a protectionist policy on foreign trade, causing the Dow Jones index to consistently hit new highs.

A tendency towards an easing of monetary policy could be detected in some emerging markets. Emerging markets equities and bonds continued their upward course during 2017.

Trends in property markets

European property markets were again marked by a sustained boom in 2017. Property investments were buoyed by low interest rates and weak inflation. In the investment market, a sustained high level of demand continued to meet with scarce supply, especially in the market for core real estate. Downward pressure on initial yields in Europe therefore continued, as expected.

European rental markets benefited from the ongoing economic upturn and declining unemployment. Increased demand for office space was driven in particular by providers of co-working spaces. In London, demand grew again in the second half of the year, following previous uncertainty in the wake of the Brexit vote. Space shortages occurred in top German markets such as Munich, Berlin and Stuttgart, where vacancy rates were below 4%.

Vacancy rates again declined slightly across Europe. Milan and Warsaw remain among the markets with the highest vacancy rates. In Warsaw, the rental market was weighed down by continued high levels of construction. In Amsterdam, a sharp reduction in supply led to a substantial rise in rents. Growth in rents was also recorded in Barcelona, Lisbon, Madrid, Stockholm and the German locations.

Demand for Class A properties in the US picked up in the last six months of the year after a weak first half. Vacancy rates in the Class A segment were steady nationwide. Although the amount of new construction has risen substantially, it is concentrated in a small number of major cities. Rents predominantly remained stable, with only a few markets recording further growth.

In Asia, demand for commercial property rose in 2017. Increased lettings in Chinese and Indian cities especially played an important role. Vacancy rates developed unevenly. In Australia, demand in the markets for office space was predominantly robust.

Investor attitudes

In the low-interest environment, investors increasingly turned their attention to real estate, bonds, equities and investment funds. In particular, interest in mutual funds investing in securities rose substantially relative to the previous year. Overall, the mutual funds tracked by the German Investment Funds Association (BVI) recorded a total net inflow of €71.8bn in the period from January to December 2017, compared with €6.5bn the previous year. Having been in negative territory in the previous year, equity and bond funds recorded net inflows of €18.2bn and €20.7bn respectively. The highest growth was recorded by mixed asset funds, which garnered €29.5bn of new money. Mutual property funds saw a net inflow of €5.5bn. The volume of new special funds for institutional investors fell slightly to €88.1bn, relative to €96.2bn the previous year.

Regulatory environment

Changes to regulations, both those already initiated and those in the pipeline, once again influenced the business model and profitability of the Deka Group during the 2017 financial year. Regulatory projects especially make considerable demands on costs and resources.

Regulatory topics

The Basel Committee laid down the final Basel III regulatory framework, also known as "Basel IV", at the start of December 2017. The agreement includes in particular an output floor of 72.5%, which limits the advantage of internal models over standard procedures. New rules for calculating risk-weighted assets for the purposes of counterparty, CVA and operational risk were also approved. Application is to begin in 2022, although the output floor will be introduced gradually with the final value of 72.5% not being reached until 2027. The framework has not yet been incorporated into European law. DekaBank currently uses the IRB approach for the majority of its lending and an up-to-date internal model for market price risk. It will therefore be particularly affected by the new output floor rules, which may lead to a significant rise in risk-weighted assets (RWA) going forward.

Another issue linked to the finalisation of Basel III is the "fundamental review of the trading book" (FRTB). Although the final standard for determining capital requirements for market price risk was published in January 2016, numerous details remain to be clarified. At present, it is anticipated that first-time application for EU credit institutions will be legally binding as from 2021 at the earliest. Alterations to the rules on dividing the banking book from the trading book and on the revised standardised approach, as well as the revised internal model, are also likely to lead to a future rise in RWA.

Finalisation of Basel III was accompanied in December 2017 by the final provisions for the Standardised Measurement Approach (SMA), a new uniform calculation method for capital adequacy requirements in relation to operational risk. Given the substantial leeway afforded to national supervisory authorities in relation to its implementation, it is difficult to estimate when and to what extent the SMA will be incorporated into European law. Overall, however, higher costs are likely to result from the simultaneous use of the internal calculation model and the new methodology, as well as from increased disclosure requirements regarding data on losses.

As part of the revision of European capital and liquidity requirements (CRR II/CRD V), it is also planned to tighten up the rules on large exposures, which would mean large exposure risks being handled more restrictively. The large exposure limit will no longer be set according to the level of total own funds but instead according to the level of Core Equity Tier 1 capital. In addition, when collateral is accepted, the collateral provider or issuer of the financial collateral shall be required to take the loan into account in their large exposure limit. Repo and stock lending transactions may become less attractive as a result.

Between March and May 2017, the ECB conducted an EU-wide stress test (sensitivity analysis of interest rate risk in the banking book) on major institutions, including DekaBank. The results have been included in the calculation of the relevant capital ratios for 2018 as prescribed by the regulator under the Supervisory Review and Evaluation Process (SREP).

A further EBA stress test is planned for 2018, which, as in 2016, will cover all risk types. For the first time, account will have to be taken of the new accounting rules under IFRS 9, which are likely to have a significant impact on stress test results. Publication of the results is scheduled for November 2018.

DekaBank is not among the banks taking part in the EBA stress test. As a bank subject to ECB supervision, however, it will be subjected to a stress test by the ECB in 2018 which will be carried out in accordance with EBA methodology. The results of the ECB's internal stress test, unlike those of the EBA banks, will not published. They will, however, feed into the calculation of SREP ratios for 2019.

In 2016, the Single Resolution Board (SRB) requested the German Federal Agency for Financial Market Stabilisation (FMSA) to draw up a resolution plan for all institutions subject to direct ECB supervision, and to involve the institutions themselves in this process. As the Single Supervisory Mechanism (SSM) applies to the Deka Group, DekaBank also assisted the SRB and FMSA in their work on a resolution plan for the Deka Group during 2017. This is based on the European Bank Recovery and Resolution Directive (BRRD) as well as on the accompanying regulation on the European Single Resolution Mechanism (SRM). This work will continue in 2018 and should form the basis for setting the minimum requirements on holding own funds and eligible liabilities for the purposes of loss absorption and recapitalisation in the event the bank enters resolution (Minimum Requirement for Eligible Liabilities – MREL).

The ESMA published its final report on the European Securities Financing Transaction Regulation (SFTR), containing implementation and regulatory standards, in April 2017. The SFTR obliges market participants to report information about trades and exposures to a recognised EU trade repository. This applies to securities financing transactions and commodities lending, including repo and stock lending trades. Implementation costs are expected to be high, given the large number of different items of reportable information. Once the regulations on implementation and regulatory standards come into force, banks and investment firms will be given twelve months to comply, while an 18-month period will be granted for funds. The regulations have not yet been passed by the EU Commission and Parliament. It is currently expected that DekaBank will begin reporting in the first half of 2019.

In February 2017, the ECB began a multi-year project to develop pan-European rules for the internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP) for major banks. Two guidelines containing detailed principles have been published in this regard by the Single Supervisory Mechanism. Further evolution of the ICAAP and ILAAP rules is scheduled to be finalised after going through a consultation process in 2018. DekaBank is closely monitoring the evolution of these prudential requirements and examining them with a view to identifying any potential need to alter existing processes and methods.

Product and performance-related regulatory proposals

National legislation implementing the EU Markets in Financial Instruments Directive II (MiFID II) and the EU Markets in Financial Instruments Regulation (MiFIR) came into force on 3 January 2018. MiFID II and MiFIR impose new requirements for investor protection and market infrastructure, and affect almost all of the Deka Group's portfolio of products and services. The directives include new regulations in relation to commission, product governance, enhanced record-keeping, extended obligations for institutions with proprietary trading ("systematic internalisers"), new provisions for automated trading and derivatives trading, and new reporting obligations for securities trading. DekaBank has implemented the requirements of MiFID II and MiFIR on time, in close cooperation with the DSGV. This gives rise in particular to higher costs for securities and derivatives trading as well as to liability risks. Implementation in close partnership with the savings banks, and the ensuing tighter integration, has visibly strengthened the confederate structure of the savings bank association.

Directive 2014/49/EU of the European Parliament and of the Council of April 2014 on deposit guarantee schemes (European Deposit Guarantee Schemes Directive) harmonised the requirements for national deposit guarantee schemes at a European level. A new proposal from the EU Commission issued in October 2017 now sets the target of passing a new European Deposit Insurance Scheme into law by the end of 2018, with implementation to follow in stages over the period until 2024. This will form a further component of the banking union. In the first stage of the process, liquidity assistance will be made available in the event that a national guarantee scheme runs out of money. In stage two, however, all savers will be compensated from a single guarantee pot. There are inherent risks in an EU-wide pooling of liability. The proposal is currently under discussion and the outcome is not yet clear.

Tax policy developments

The German Investment Tax Reform Act (*Investmentsteuerreformgesetz*) came into force on 1 January 2018. The new Act fundamentally changes the taxation of investment funds in Germany. Henceforth, both mutual funds and special funds will be liable to corporation tax on income from domestic equities, rental income and gains on property disposals. To compensate for taxation of the fund, private investors in particular will receive suitable partial exemptions, which are designed to ensure that their overall tax burden does not rise. The exemptions will be applied when calculating withholding tax. Subject to certain conditions, the regulations for special investment funds will remain unchanged. Deka will incur expenses for implementation of the reform. The new rule has not affected the attractiveness of the Deka Group's fund products, as appropriate partial exemption rules exist to offset the performance-dampening effects at fund level.

Another tax change relates to the grandfathering of old investment fund units for private investors. Gains achieved up to 31 December 2017 are protected by grandfathering rules. Gains realised after 1 January 2018 will be subject to the new tax regime to the extent they exceed a tax-exempt amount of €100,000. The Deka Group does not expect the new rule to affect the investing behaviour of customers.

Business development and profit performance in the Deka Group

Overall statement on the business trend and the Group's position

The Deka Group ended the 2017 financial year with an economic result of €448.9m, 8.1% higher than the result for the previous year. The rise was due partly to higher net commission income, which reflected the strong growth of total customer assets.

Net sales rose by a total of €8.8bn to a record level of €25.7bn, with direct sales of mutual funds (including via fund savings plans and pension products) and special funds approximately doubling. Bond and mixed asset funds in particular rose substantially, although growth was also recorded in other asset classes. In certificates business, the good volumes achieved in the prior year were maintained.

Deka Group net sales *in €m (Fig. 1)*

	2017	2016
Net sales	**25,671**	**16,914**
by customer segment		
Retail customers	12,309	7,710
Institutional customers	13,362	9,204
by product category		
Mutual funds and fund-based asset management	8,492	4,265
Special funds and mandates	9,724	4,933
Certificates	7,597	7,528
ETFs	– 141	188

The rise in total customer assets by €26.1bn to €282.9bn reflects both a high level of new business and sound investment performance by the individual products, notwithstanding the outflows caused by distributions (from which customers also benefited).

Deka Group total customer assets *in €m (Fig. 2)*

	31 Dec 2017	31 Dec 2016	Change	
Total customer assets	**282,888**	**256,805**	26,083	10.2%
by customer segment				
Retail customers	138,951	128,650	10,301	8.0%
Institutional customers	143,937	128,155	15,782	12.3%
by product category				
Mutual funds and fund-based asset management	141,166	130,471	10,695	8.2%
Special funds and mandates	115,057	102,934	12,123	11.8%
Certificates	17,552	15,079	2,473	16.4%
ETFs	9,113	8,321	792	9.5%

Utilisation of risk capacity fell slightly compared with the already modest level at the end of 2016 (35.2%) and stood at 34.4% at the 2017 reporting date. This is because risk capacity rose while overall risk remained virtually unchanged relative to the prior year.

The Deka Group is also starting its centenary year of 2018 from a good financial and asset position. The fully loaded Common Equity Tier 1 capital ratio, calculated in accordance with the requirements of CRR/CRD IV, stood at 16.7% at the year-end (previous year: 16.7%). Common Equity Tier 1 capital was strengthened through reinvestment of net profits from 2016. Against this, risk-weighted assets rose slightly.

The SREP requirement for the phase-in Common Equity Tier 1 capital ratio, which came into force at the start of 2017, was substantially exceeded at all times. The figure applicable at 31 December 2017 was 7.22%. This value is made up of the Pillar One minimum requirement (4.5%) plus the Pillar Two requirement (1.25%), the capital conservation buffer (1.25%), the countercyclical capital buffer (approximately 0.06% at the year-end) and the capital buffer for other systemically important banks (0.16%). The capital requirement for the total capital ratio (phase-in) was 10.72%.

The minimum phase-in Common Equity Tier 1 capital ratio for 2018, as calculated at the start of the year, was around 8.00%. In comparison to 2017, the capital conservation buffer prescribed by prudential regulations has risen to 1.875% and the capital buffer for other systemically important banks to 0.32%. The capital requirement for the total capital ratio (phase-in) is approximately 11.50%.

The Deka Group’s liquidity position remained very comfortable throughout the year and across all relevant maturities. The minimum requirements for the liquidity coverage ratio (LCR) were clearly exceeded. The fully loaded leverage ratio stood at 4.7% at the year-end. This figure is already substantially above the expected minimum ratio of 3.0% to be observed in 2019.

In summary, the Deka Group is well-prepared for the future in both asset management and banking business.

Comparison of forecast and actual growth

Expectations regarding the Deka Group's results for 2017, as set out in the forecast report in the 2016 Group management report and updated in the 2017 interim report, were met and in some cases exceeded:

Performance of key ratios in the Deka Group *(Fig. 3)*

		31 Dec 2016	Forecast report 2016	Interim report 2017	31 Dec 2017	Change	
Economic result	€m	415.1	At around the previous year's level	At around the previous year's level	448.9	33.8	8.1%
Total customer assets	€bn	256.8	Slight increase	Slight increase	282.9	26.1	10.2%
Net sales	€bn	16.9	Slight increase	Slight increase	25.7	8.8	51.8%
Common Equity Tier 1 capital ratio	%	16.7	Over 13%	Over 13%	16.7	0.0 %-points	
Utilisation of risk capacity	%	35.2	Slight increase	Slight increase	34.4	−0.8 %-points	

Ratings

DekaBank's ratings remain among the best in its peer group of German commercial banks. In February 2017, Standard & Poor's (S&P) raised the issuer rating from A to A+ with a stable outlook due to the sustainable integration of DekaBank into the *Sparkassen-Finanzgruppe*. The short-term rating was confirmed at A-1. S&P renewed these ratings in October 2017. At the end of June 2017, Moody's confirmed DekaBank's long-term senior unsecured and issuer rating of Aa3 with a stable outlook. The short-term rating stands at P-1. In mid-December, as a result of EU efforts to harmonise bail-in liability cascades across Europe and introduce a new bond category of "senior non-preferred debt", Moody's reclassified the outlook for all senior unsecured debt of German banks as negative. This affected the entire industry, including DekaBank. Moody's awarded an Aaa rating to DekaBank's Pfandbrief bonds.

The rating assessments of both agencies reflect the high strategic importance of the Deka Group to the savings bank sector as well as the adequate capital and liquidity base for its business model.

Profit performance of the Deka Group

The 8.1% rise in the economic result to €448.9m (previous year: €415.1m) is primarily due to the substantial jump in net commission income and to substantially smaller increases in provisions for loan losses relative to the previous year.

The 6.4% increase in total income to €1,494.1m (previous year: €1,403.7m) was accompanied by a comparatively small increase of 5.7% in expenses to €1,045.2m (previous year: €988.6m), which was principally due to tighter regulatory requirements.

Net interest income of €155.6m was 11.8% up on the previous year (€139.2m). Key components of net interest income were the earnings contribution from specialised and property financing in the Financing business division, as well as the earnings contribution from the strategic investments unit in the Capital Markets business division, which were slightly below the previous year's level overall. The slight rise during the year under review was mainly due to higher income from short-term liquidity management and lower interest expenses on equity instruments.

Loan loss provisioning fell very substantially to €–17.8m (previous year: €–209.8m). Of this, €–28.5m related to lending business (previous year: €–194.6m). Risk provisioning requirements were relatively low in the year under review. This was in contrast to the previous year, when substantial specific provisions were recorded, particularly on legacy ship financing loans. The risk provisioning result for securities in the "loans and receivables" and "held to maturity" categories was positive at €10.7m, compared to a net increase in provisions of €–15.2m in the previous year. This resulted principally from the partial release of a portfolio provision in the reporting year.

Net commission income increased by an encouraging 8.6% to €1,202.7m (previous year: €1,107.4m). This essentially resulted from portfolio-based fees for fund management. The increase in total customer assets, due to strong net sales performance and solid fund performance, was a major contributing factor. The decrease in commission income from banking, in particular from the Commission Business unit, was compensated by increased income from custody account business.

At €156.3m, net financial income fell short of the high figure of €316.5m achieved the previous year. Net financial income comprises all income elements of the trading book portfolios, the measurement result and net gains on sale from the banking book portfolios and the risk provisions for securities in the LaR and HtM categories.

At €252.4m, net financial income from trading book portfolios was higher than in the previous year (€252.8m). A key component of the total was income from the Trading & Structuring unit, which benefited from high demand among institutional customers for debt issues and certificates business. Income from the Collateral Trading unit also rose in spite of the difficult market.

Net financial income from the banking book, at €–106.8m, was substantially below the previous year's result of €78.9m. The principal reason was the €95m increase in the general provision to cover potential risks. Additions to or releases from the general provision are reflected in the economic result outside the IFRS profit or loss and without specific allocation to business divisions. If the general provision is excluded, net financial income from the banking book would be €–11.8m. This was due to remeasurement effects on securities as a result of movements in markets and spreads during the year. The previous year's figure included gains on remeasurement on account of movements in spreads, as well as a small €10m increase in the general provision.

Other operating profit of €8.0m was below the previous year's figure (€35.2m). Actuarial gains of €15.4m were recorded in respect of pension provisions, owing to a rise in the value of plan assets. The year-end actuarial interest rate of 1.9% was essentially the same as the year before (1.95%). In the previous year, by contrast, changes in the actuarial interest rate resulted in an actuarial loss of €15.2m. Actuarial effects are not included in the IFRS income statement as they are posted directly in equity (revaluation reserve). However, they are reported in the economic result as part of the profit or loss for the period. Prior-year other operating profit included positive effects resulting from the acquisition of S Broker and the acquisition on 1 January 2014 of LBB-INVEST.

Personnel expenses increased by 7.4% to €524.3m, compared with the previous year's €488.4m. This was due to the full-year consolidation of S Broker (consolidated for only six months in 2016), as well as to a rise in staffing levels (2.2%) and to wage rises.

Operating expenses (excluding bank levy and depreciation) rose by 7.4% compared with the previous year (€429.2m) to €460.9m. This was partly the effect of increased expenses for the implementation of regulatory requirements. Higher marketing and sales expenses were also incurred, owing to the further intensified support provided to savings banks.

At €35.3m, the bank levy was close to the previous year's level (€34.4m).

Depreciation and amortisation charges of €19.3m (previous year: €18.1m) mainly comprise the amortisation of intangible assets.

Restructuring expenses of €5.4m were incurred in 2017. These were due in particular to the strategic reorganisation of LBB-INVEST. The previous year's figure included restructuring provisions of €18.5m.

The cost/income ratio, i.e. the ratio of total expenses to total income (excluding restructuring expenses and movements in provisions for loan losses), was 68.3% and thus fell short of the 60.7% figure achieved the previous year, as a result of the matters described above. Return on equity (before tax) rose to 9.9% (previous year: 9.6%).

Deka Group performance *in €m (Fig. 4)*

	2017	2016	Change	
Net interest income	155.6	139.2	16.4	11.8%
Provisions for loan losses	–28.5	–194.6	166.1	85.4%
Net commission income	1,202.7	1,107.4	95.3	8.6%
Net financial income[1]	156.3	316.5	–160.2	–50.6%
Other operating profit	8.0	35.2	–27.2	–77.3%
Total income	**1,494.1**	**1,403.7**	90.4	6.4%
Administrative expenses (including depreciation)	1,039.8	970.1	69.7	7.2%
Restructuring expenses	5.4	18.5	–13.1	–70.8%
Total expenses	**1,045.2**	**988.6**	56.6	5.7%
Economic result	**448.9**	**415.1**	33.8	8.1%

[1] Net financial income includes risk provisions for securities in the LaR and HtM categories of €10.7m (previous year: €–15.2m).

Business development and profit performance by business division

Prior-year figures have been adjusted on account of the reorganisation of the business divisions and therefore do not correspond to the figures published in last year's report.

Business development and profit performance in the Asset Management Securities business division

The economic result increased substantially relative to the previous year's figure, owing to the rise in net commission income. The Asset Management Securities business division can look back on a successful year. Net sales more than doubled, with substantial growth in both retail and institutional business. Total customer assets rose to €231.0bn, which was also due to the solid performance of the funds.

Net sales performance and total customer assets

Net sales performance in the division was €15.9bn (previous year: €6.9bn). This was the highest figure for more than ten years.

Net sales of mutual securities funds, including fund-based asset management, rose to €6.4bn (previous year: €2.5bn). A substantial part of this derived from direct sales of equity, bond and mixed asset funds, both via lump-sum investments and via regular saving into fund savings plans. In product terms, investor demand for *Deka-DividendenStrategie* was particularly strong. Overall, direct sales of mutual funds rose by €4.7bn to €5.6bn. Net sales for fund-based asset management were €0.8bn (previous year: €1.6bn).

Net sales of securities special funds, master funds and advisory/management mandates more than doubled to €9.6bn (previous year: €4.3bn). Significant growth was achieved in securities special funds and master funds.

Net sales performance in the Asset Management Securities business division *in €m (Fig. 5)*

	2017	2016
Net sales	**15,870**	**6,932**
by customer segment		
Retail customers	5,563	2,258
Institutional customers	10,307	4,674
by product category		
Mutual funds and fund-based asset management	6,426	2,474
ETFs	–141	188
Special funds and mandates	9,585	4,269

The business division's total customer assets rose by 10.4% to €231.0bn. In addition to high sales, a substantial proportion of this was due to investment performance – particularly among equity funds and securities special funds.

Total customer assets in the Asset Management Securities business division *in €m (Fig. 6)*

	31 Dec 2017	31 Dec 2016	Change	
Total customer assets	**230,991**	**209,242**	21,749	10.4%
by customer segment				
Retail customers	103,104	96,169	6,935	7.2%
Institutional customers	127,887	113,073	14,814	13.1%
by product category				
Mutual funds and fund-based asset management	112,883	103,857	9,026	8.7%
thereof: equity funds	29,656	26,061	3,595	13.8%
thereof: bond funds	36,473	35,663	810	2.3%
thereof: mixed asset funds	16,377	15,335	1,042	6.8%
ETFs	9,113	8,321	792	9.5%
Special funds and mandates	108,995	97,064	11,931	12.3%

Profit performance in the Asset Management Securities business division

The rise in the economic result to €345.4m (previous year: €278.6m) was mainly founded on a rise in net commission income, which was €49.8m higher than the previous year's figure owing to a rise in portfolio-based fees. The increase in total customer assets was a major contributing factor. Expenses were below the previous year's figure, and thus also contributed positively.

Profit performance in the Asset Management Securities business division *in €m (Fig. 7)*

	2017	2016	Change	
Net commission income	716.1	666.3	49.8	7.5%
Other income	34.1	28.8	5.3	18.4%
Total income	**750.2**	**695.1**	55.1	7.9%
Administrative expenses (including depreciation)	389.7	391.0	–1.3	–0.3%
Restructuring expenses	3.8	18.5	–14.7	–79.5%
Total expenses	**393.5**	**409.5**	–16.0	–3.9%
Economic result without Treasury function	**356.7**	**285.6**	71.1	24.9%
Treasury function	–11.3	–7.1	–4.2	–59.2%
Economic result	**345.4**	**278.6**	66.8	24.0%

Business development and profit performance in the Asset Management Real Estate business division

The economic result outstripped the previous year's figure, thanks to higher variable fund management fees. The solid investment performance of the funds was based on a further improvement in rental performance as well as on substantially higher transaction volumes relative to 2016. The Asset Management Real Estate business division achieved net sales performance that came just short of the previous year, while maintaining a conservative management strategy.

Net sales performance and total customer assets

Net sales performance in the division was €2.2bn in 2017 (previous year: €2.5bn).

For open-ended mutual property funds, the sales quota set on the basis of a conservative yield and liquidity management was met after only a few months. An interim distribution from the funds, prompted by the changes contained in the German Investment Tax Reform Act (*Investmentsteuerreformgesetz*), led to further inflows at the year-end as a result of the high proportion of reinvestment. Overall, the net sales performance of €2.1bn was consequently higher than the previous year's figure of €1.8bn. The majority of net sales related to *Deka-ImmobilienEuropa* and *Deka-ImmobilienGlobal*.

Net sales performance for special funds and individual property funds was €0.1bn (previous year: €0.7bn). As in the previous year, net outflows were recorded in relation to single-investor funds as funds with a fixed lifetime reached maturity. The new range of club deals initiated at the end of 2016, together with advisory services related to the *Deka Immobilien-Kompass*, provide a good platform for the expansion of institutional business in subsequent years. The first fund advisory mandate, for instance, was successfully put in place in 2017.

Net sales performance in the Asset Management Real Estate business division *in €m (Fig. 8)*

	2017	2016
Net sales	**2,204**	**2,455**
by customer segment		
Retail customers	1,924	1,697
Institutional customers	280	758
by product category		
Mutual property funds	2,065	1,791
Special funds and individual property funds	139	664

Total customer assets in the Asset Management Real Estate business division rose by 5.7% to €34.3bn (2016: €32.5bn), despite the interim distribution carried out in December. Mutual property funds accounted for €28.3bn (2016: €26.6bn). Total customer assets in special funds and individual property funds rose over the course of the year to €6.1bn (2016: €5.9bn). This included credit funds with a total asset value of €1.1bn, the same figure as in the previous year.

Total customer assets in the Asset Management Real Estate business division *in €m (Fig. 9)*

	31 Dec 2017	31 Dec 2016	Change	
Total customer assets	**34,345**	**32,484**	1,861	5.7%
by customer segment				
Retail customers	26,232	24,781	1,451	5.9%
Institutional customers	8,113	7,703	410	5.3%
by product category				
Mutual property funds	28,283	26,614	1,669	6.3%
Special funds and individual property funds	6,062	5,870	192	3.3%

The increase in total customer assets was driven by healthy fund performance as well as positive net sales performance. The mutual property funds, which are denominated in euros, achieved an average volume-weighted return of 2.7% (previous year: 2.4%), thanks in part to rigorous cash management.

Transaction volume, i.e. purchases and sales of property, rose substantially to €5.9bn (previous year: €4.3bn). Around 72% of the total transaction volume was attributable to purchases of a total of 33 contractually secured properties, and the rest to 39 disposals. Business activities continue to centre on properties in the office, shopping, hotel and logistics asset classes. With this transaction volume, the Deka Group and its property funds remain one of the world's biggest property investors.

Profit performance in the Asset Management Real Estate business division
The division's economic result rose substantially to €111.0m (previous year: €69.4m). The rise in its net commission income was materially influenced by variable management fees received from one open-ended mutual property fund. While income grew, expenses – which included project and sales/marketing expenses – did not rise to the same degree.

Profit performance in the Asset Management Real Estate business division *in €m (Fig. 10)*

	2017	2016	Change	
Net interest income	4.8	3.5	1.3	37.1%
Provisions for loan losses	0.0	0.0	0.0	n/a
Net commission income	240.4	196.1	44.3	22.6%
Net financial income	–0.2	–2.7	2.5	92.6%
Other operating profit	1.9	1.8	0.1	5.6%
Total income	**246.9**	**198.8**	48.1	24.2%
Administrative expenses (including depreciation)	133.0	126.9	6.1	4.8%
Restructuring expenses	0.0	0.0	0.0	n/a
Total expenses	**133.0**	**126.9**	6.1	4.8%
Economic result without Treasury function	**113.9**	**71.9**	42.0	58.4%
Treasury function	–2.9	–2.5	–0.4	–16.0%
Economic result	**111.0**	**69.4**	41.6	59.9%

Business development and profit performance in the Asset Management Services business division

The Asset Management Services division has considerably expanded the Deka Group's online services for customers. Substantial growth was achieved both in the number of custody accounts and the volume of assets under custody.

Business development in the Asset Management Services business division
The divisional structure introduced at the start of 2017 positioned depositary services as an offering for external customers and expanded product sales. The volume acquired as a result, along with growth in the two asset management divisions, led to a 7.7% increase in assets under custody to €201.6bn. The number of custody accounts for which the division is the legal provider rose by 4.7% to some 4,492 thousand. One reason for this was strong demand among savings banks customers for regular saving products.

In the Digital Multichannel Management subdivision, collaboration with the savings banks has been substantially increased. Assets under custody totalled €119.3bn as at the end of 2017, representing a rise of 12.8%. The number of securities transactions was just under 30% higher than in the previous year. This was partly due to the interim distribution made by the funds in December 2017 on account of the changes contained in the German Investment Tax Reform Act.

The *Deka-Relax* robo-advisory product, which combines actively managed fund-of-funds solutions with an overall stop-loss limit and the automatic updating of (non-guaranteed) capital preservation targets, has already been incorporated into the product range of a number of savings banks. The number of savings banks using S Broker's "S Comfort" custody account offering also rose in 2017.

Profit performance in the Asset Management Services business division
The economic result for the division was a loss of €4.8m. The key component of the division's income is net commission income, which rose by 7.8% during the year under review to €161.7m. Against this, administrative expenses were €165.4m. The €51.2m rise in administrative expenses resulted chiefly from the expansion of digital multichannel management, the full-year consolidation of S Broker for the first time and the increase in operating and personnel expenses, which was prompted by regulatory matters. The previous year's economic result, a €75.4m profit, was heavily influenced by positive income statement effects of some €36m from the acquisition of S Broker.

Profit performance in the Asset Management Services business division *in €m (Fig. 11)*

	2017	2016	Change	
Net interest income	4.2	1.8	2.4	133.3%
Provisions for loan losses	0.0	0.0	0.0	n/a
Net commission income	161.7	150.0	11.7	7.8%
Net financial income	−0.1	3.6	−3.7	−102.8%
Other operating profit	−2.1	35.5	−37.6	−105.9%
Total income	**163.7**	**190.9**	−27.2	−14.2%
Administrative expenses (including depreciation)	165.4	114.2	51.2	44.8%
Restructuring expenses	1.6	0.0	1.6	n/a
Total expenses	**167.0**	**114.2**	52.8	46.2%
Economic result without Treasury function	**−3.3**	**76.8**	−80.1	−104.3%
Treasury function	−1.6	−1.4	−0.2	−14.3%
Economic result	**−4.8**	**75.4**	−80.2	−106.4%

Business development and profit performance in the Capital Markets business division
The Capital Markets business division again achieved a good economic result in 2017, despite market conditions that were hampered by low interest rates and regulatory requirements. As the product, solutions and infrastructure provider in the *Wertpapierhaus* of the *Sparkassen-Finanzgruppe,* the division further honed its profile with new product and advisory offerings.

Business development in the Capital Markets business division
In a market that continued to be marked by low interest rates, the Collateral Trading unit achieved profits above the previous year's figure, which was partly attributable to innovative solutions in stock lending trades and collateral management.

The Commission Business unit was below the previous year's level, as expected.

The Trading & Structuring unit benefited from strong demand among institutional customers for debt issues and certificates. It also cemented its position as market leader in the accompanying primary market for German Federal States. The unit also expanded its position in the retail certificates market. Market share in the primary market for investment products rose to 16.0% in 2017. Net sales in the certificates business were approximately €7.6bn, slightly above the previous year's figure. Of this total, €4.8bn (previous year: €3.8bn) related to retail customers and €2.8bn (previous year: €3.8bn) to institutional customers.

Profit performance in the Capital Markets business division

At €195.6m, the business division's economic result was comparable to the previous year (€196.6m). A large proportion of the total related to net financial income, which was marked by high customer demand for structured products and own issues. Risk provisioning for securities (LaR and HtM) also moved in a positive direction, as did the spread-related measurement result for strategic investments. This was more than enough to offset the decline in commission income and net interest income. Falling administrative expenses also contributed to the good economic result.

Profit performance in the Capital Markets business division *in €m (Fig. 12)*

	2017	2016	Change	
Net interest income	36.0	40.7	–4.7	–11.5%
Provisions for loan losses	0.0	0.1	–0.1	–100.0%
Net commission income	51.2	66.9	–15.7	–23.5%
Net financial income	295.9	262.3	33.6	12.8%
Other operating income	2.3	12.1	–9.8	–81.0%
Total income	**385.4**	**382.1**	3.3	0.9%
Administrative expenses (including depreciation)	165.9	170.1	–4.2	–2.5%
Restructuring expenses	0.0	0.0	0.0	n/a
Total expenses	**165.9**	**170.1**	–4.2	–2.5%
Economic result without Treasury function	**219.5**	**212.0**	7.5	3.5%
Treasury function	–23.9	–15.4	–8.5	–55.2%
Economic result	**195.6**	**196.6**	–1.0	–0.5%

Business development and profit performance in the Financing business division

The Financing business division reported a substantially better economic result in 2017 than in the previous year. Net interest income and net commission income were in total approximately the same as the year before. Additions to provisions for loan losses were substantially lower than in the previous year, when impairments were charged on account of the ship loans crisis.

The division's financing portfolio was expanded outside the saving bank financing segment. The volume of new business arranged for vehicle and infrastructure financing was expanded in 2017, while new real estate financing business was moderately below the good result achieved the previous year.

Business development in the Financing business division

Gross lending volume in the division was €21.6bn at the end of 2017 (2016: €21.7bn). Of this total, €13.0bn (previous year: €14.7bn) related to specialised financing and €8.6bn (previous year: €7.0bn) to the real estate financing subdivision.

The fall in overall portfolio size in the specialised financing subdivision was due chiefly to lower demand for savings bank financing, exchange-rate effects and loan repayments. Of the year-end portfolio, €2.4bn related to infrastructure financing (2016: €2.0bn), €1.1bn related to export financing (previous year: €0.8bn), and €3.9bn related to vehicle financing (previous year: €4.6bn). Vehicle financing comprised ship financing of €0.9bn and aircraft financing of €3.0bn.

The gross loan volume in relation to savings bank financing was €5.3bn (previous year: €7.3bn).

The legacy portfolio, which primarily contains ship financing loans that were made before the lending risk strategy was changed in 2010, was reduced by €0.4bn, more than had been planned. Legacy ship financing loans totalled €0.3bn at the end of 2017. Overall, ship financing loans totalled €1.2bn (previous year: €1.6bn).

The average rating for the loan portfolio as a whole was 5 on the DSGV master scale, unchanged since the end of 2016. This corresponds to a rating of BBB– on the S&P rating scale.

Gross loan volume in the real estate financing subdivision was split between €7.1bn for commercial property lending (2016: €6.1bn) and €1.4bn of loans to open-ended property funds (2016: €0.9bn). The average rating for the loan portfolio on the DSGV master scale improved by one point from 4 to 3. This corresponds to a rating of BBB on the external S&P rating scale.

The volume of new business arranged in the Financing business division was €6.9bn (previous year: €6.5bn), of which €3.6bn related to the specialised financing subdivision (previous year: €2.7bn) and €3.4bn to the real estate subdivision (previous year: €3.8bn). Aircraft financing made up the largest part of the new business arranged in specialised financing, and accounted for 23% of new business as a whole (previous year: 12%). In real estate finance, the largest part of new business related to commercial property lending, which made up 34% of the total (previous year: 39%). The savings bank financing segment made up 8% of total new business in the Financing division (previous year: 17%).

The total amount of placements was €2.2bn, moderately above the previous year's figure of €1.9bn. Around 21% of this was placed with the *Sparkassen-Finanzgruppe*.

Profit performance in the Financing business division
The economic result of the Financing business division rose substantially to a €50.5m profit, from a €–120.7m loss the previous year. The previous year's result had been weighed down in particular by specific provisions on legacy ship financing loans. A total expense of €–28.5m was recorded for loan loss provisioning in the reporting year, as against an expense of €–194.5m the year before. Net interest income and net commission income were approximately the same as the year before. At €56.6m, administrative expenses exceeded the prior-year figure of €52.1m, largely as a result of higher personnel and project expenses.

Profit performance in the Financing business division *in €m (Fig. 13)*

	2017	**2016**	Change	
Net interest income	114.2	119.8	–5.6	–4.7%
Provisions for loan losses	–28.5	–194.5	166.0	85.3%
Net commission income	34.3	29.6	4.7	15.9%
Net financial income	–10.6	–14.3	3.7	25.9%
Other operating profit	14.6	0.3	14.3	(> 300%)
Total income	**123.9**	**–59.2**	183.1	(> 300%)
Administrative expenses (including depreciation)	56.6	52.1	4.5	8.6%
Restructuring expenses	0.0	0.0	0.0	n/a
Total expenses	**56.6**	**52.1**	4.5	8.6%
Economic result without Treasury function	**67.4**	**–111.3**	178.7	160.6%
Treasury function	–16.9	–9.5	–7.4	–77.9%
Economic result	**50.5**	**–120.7**	171.2	141.8%

Business development and profit performance in non-core business
An economic result of €11.2m (previous year: €18.2m) was reported for non-core business. This is the last year in which non-core business will be disclosed as a separate segment. Gross loan volume, which is made up of legacy business in securitised structured products and foreign public-sector bonds from the former public finance portfolio, reduced from €0.8bn to €0.6bn during the year. The rating for the net loan volume improved from 3 to A on the DSGV master scale. The strategy of winding down the portfolio will be maintained for the remaining credit substitute business.

Profit performance in non-core business *in €m (Fig. 14)*

	2017	2016	Change	
Net interest income	3.2	5.5	−2.3	−41.8%
Provisions for loan losses	0.0	0.0	0.0	n/a
Net commission income	0.0	0.0	0.0	n/a
Net financial income	8.4	13.4	−5.0	−37.3%
Other operating income	0.0	0.0	0.0	n/a
Total income	**11.5**	**18.9**	−7.4	−39.2%
Administrative expenses (including depreciation)	0.4	0.8	−0.4	−50.0%
Restructuring expenses	0.0	0.0	0.0	n/a
Total expenses	**0.4**	**0.8**	−0.4	−50.0%
Economic result without Treasury function	**11.2**	**18.2**	−7.0	−38.5%
Treasury function	0.0	0.0	0.0	n/a
Economic result	**11.2**	**18.2**	−7.0	−38.5%

Financial position and assets and liabilities of the Deka Group

Financial management principles and objectives

Via its Treasury corporate centre, DekaBank pursues an integrated approach aimed at the efficient active management of group-wide liquidity, thus ensuring that flexibility and investor trust are retained even in difficult market situations. DekaBank acts as a liquidity platform, both through the close integration of asset management and banking activities and by operating cash pooling for the savings banks.

The Bank has high volumes of central bank-eligible highly liquid assets, which can be used to generate liquidity via various market access routes at any time.

Liquidity investing remains focused on investments in bonds issued by German federal states, German development banks, German run-off institutions, German Pfandbriefe, supranational institutions and investment-grade corporate bonds.

Deka's good ratings also enable ready access, at competitive terms, to the money and capital markets. In order to achieve a diversified refinancing position, DekaBank uses a variety of refinancing instruments and issue programmes which ensure that funding is obtained from a broad, diversified range of sources with a variety of currencies, maturities, products and investors. Repo and stock lending transactions are used for refinancing purposes, in addition to traditional overnight money and time deposits. DekaBank is one of the largest participants in the German repo market.

The Deka Group's equity management ensures adequate capital and reserves.

Derivative financial instruments are used for trading purposes and to hedge interest rate risks, currency risks and other price risks in the banking book and trading book. DekaBank does not have extensive open currency positions. Details of derivative transactions can be found in the notes to the consolidated financial statements.

Financial position, capital structure, assets and liabilities

The Deka Group's total balance sheet assets were €93.7bn as at the end of 2017, representing a rise of 9% over the previous year's figure of €86.0bn.

Amounts due from banks and customers rose during the reporting period by a total of €3.6bn to €47.0bn and accounted for around half of total assets. The change was due chiefly to a customer-driven rise in reverse repo transactions, the majority of which were refinanced on the money markets. Owing to excess liquidity in the money and capital markets, higher liquidity surpluses on the part of customers and the Deka Group's good credit rating, deposit business could be transacted on the money markets at rates that were often substantially below the central bank's deposit facility rate. Parts of these deposit surpluses increased our risk-free cash reserves at the central bank by €6.4bn to €10.0bn. On the other hand, financial assets recognised at fair value through profit or loss fell by around €2.9bn, mainly due to the interest-driven market values of derivatives, and thus amounted to some €32bn. They made up around 34% of total assets as at the reporting date.

On the liabilities side, amounts due to banks and customers collectively rose by €5.1bn to €45.9bn, and thus accounted for around 49% of total assets. This movement resulted mainly from the increase in customer deposits. Securitised liabilities also went up to €14.2bn, a substantial rise of €3.2bn which was due *inter alia* to increased money market refinancing via commercial paper. Financial liabilities measured at fair value remained virtually unchanged at €26.0m, with the reduction due to the interest-driven market values of derivatives being offset by an increase in trading issues. At the 2017 year-end, balance sheet equity was up year-on-year, amounting to €5.3bn (previous year: €5.1bn).

Changes in the Deka Group balance sheet *in €m (Fig. 15)*

	31 Dec 2017	31 Dec 2016	Change	
Total assets	**93,740**	**85,955**	7,785	9.1%
Selected asset items				
Due from banks and customers	47,047	43,495	3,552	8.2%
Financial assets at fair value	31,985	34,903	−2,918	−8.4%
Financial investments	3,791	2,969	822	27.7%
Selected liability items				
Due to banks and customers	45,899	40,782	5,117	12.5%
Securitised liabilities	14,235	11,076	3,159	28.5%
Financial liabilities at fair value	25,983	26,519	−536	−2.0%

Changes in regulatory capital (own funds)

Capital adequacy is determined in accordance with the CRR/CRD IV. Alongside counterparty risk, market risk and operational risk, credit valuation adjustment (CVA) risk is also taken into account. The own funds requirement under banking supervisory law was complied with at all times during the year.

The change in the Common Equity Tier 1 capital ratio (fully loaded) is discussed as part of the overall commentary on the business trend and the Group's position. The corresponding total capital ratio stood at 21.9% at year-end (2016: 22.2%).

The leverage ratio determined in accordance with the Delegated Regulation of 17 January 2015, i.e. the ratio of Common Equity Tier 1 capital to total balance sheet assets as adjusted in line with regulatory requirements, amounted to 4.7% (fully loaded) at 31 December 2017, compared with 5.1% at the end of 2016. A leverage ratio of 4.8% is disclosed under the phase-in rules (2016: 5.2%). This is substantially above the minimum leverage ratio of 3.0% that is expected to apply in 2019.

Deka Group own funds *in €m (Fig. 16)*

	31 Dec 2017		31 Dec 2016	
	CRR/CRD IV (without transitional provisions)	CRR/CRD IV (with transitional provisions)	CRR/CRD IV (without transitional provisions)	CRR/CRD IV (with transitional provisions)
Common Equity Tier 1 (CET 1) capital	4,145	4,238	3,978	4,216
Additional Tier 1 (AT 1) capital	474	437	474	348
Tier 1 capital	**4,619**	**4,676**	**4,451**	**4,564**
Tier 2 (T2) capital	823	817	838	801
Own funds	**5,442**	**5,492**	**5,289**	**5,366**
Credit risk	15,568	15,568	15,038	15,038
Market risk	5,127	5,127	4,478	4,478
Operational risk	3,242	3,242	2,887	2,887
CVA risk	950	950	1,411	1,411
Risk-weighted assets	**24,886**	**24,886**	**23,813**	**23,813**
%				
Common Equity Tier 1 capital ratio	**16.7**	**17.0**	**16.7**	**17.7**
Tier 1 capital ratio	**18.6**	**18.8**	**18.7**	**19.2**
Total capital ratio	**21.9**	**22.1**	**22.2**	**22.5**

Liquidity and refinancing

The liquidity management requirements set out in the Minimum Requirements for Risk Management (*Mindestanforderungen an das Risikomanagement* – MaRisk) were fully satisfied throughout 2017. The requirements of the German Liquidity Regulation (*Liquiditätsverordnung*) were likewise complied with during the year. The Deka Group's liquidity coverage ratio (LCR) increased to 152.5% at the end of 2017 (2016: 124.4%). Details about the Deka Group's liquidity position, including the liquidity coverage ratio, can be found in the risk report.

Refinancing is carried out in a diversified manner using conventional domestic and international money market and capital market instruments. This includes issues of public sector and mortgage *Pfandbriefe*, short-term bearer bonds based on the commercial paper (CP) programme, and medium to long-term bearer bonds based on the debt issuance programme and the programmes for structured issues and certificates. DekaBank also uses the repo and lending markets, call money and time deposits to raise and invest liquidity. Refinancing activities are supplemented by active market-making for own issues.

Human resources report

The total number of employees rose slightly during the reporting year to 4,649 (2016: 4,556). The increase in staff numbers was associated *inter alia* with the expansion of Digital Multichannel Management and the IT corporate centre, the increase in asset servicing activities and the implementation of regulatory projects. The number of employees is determined by counting the number of employment contracts (temporary and permanent) in existence at the reporting date, including inactive employees, trainees and interns.

The number of earnings-relevant full-time equivalents increased by 2.2% compared with the end of 2016, to 4,077.6. The total includes part-time employees actively involved in work processes in the Deka Group, who are counted *pro rata* on the basis of their working hours.

At the year-end, 79.7% of the workforce were employed in full-time posts. The average age of active employees (excluding apprentices and inactive staff members) was 43.8 years (previous year: 43.3 years).

The highlights of HR work included assisting the digitalisation of the Deka Group with a focus on the transformation into a more agile working world. Opportunities were provided to employees in various formats to intelligently develop their technical, methodological and personal skills in line with the requirements of working in the world of Industry 4.0.

The Deka Group also promotes the career development of high-performing or high-potential staff through formats such as *Karriere@Deka* and Women's Mentoring. Particular attention is paid to women's career development. The Group has set binding rules for gender equality in its fourth Equality Plan and is endeavouring to provide better conditions for staff members with family obligations. The remuneration system is based on the requirements of market-rate compensation, fairness and transparency. The gender-neutral treatment of all employees is assured.

The report on equal treatment and equality of pay prescribed under part 4 of the German Transparency of Pay Act (*Entgelttransparenzgesetz* – EntgTranspG, sections 21-22) is mandatory for the first time this year. It does not form part of the Group management report and will be published together with the DekaBank management report for 2017 in the German Federal Gazette (*Bundesanzeiger*).

Forecast and opportunities report

Forecast report

Forward-looking statements

The Deka Group plans its future business development on the basis of assumptions that appear most probable from a current perspective. However, plans and statements about the course of business during 2018 are subject to uncertainties. Actual trends in the international capital, money and property markets or in the Deka Group's business divisions may diverge significantly from our assumptions, which are partly based on expert estimates.

The Deka Group's risk position is summarised in the risk report. If the risk scenarios referred to in the risk report should materialise, for example as a result of stress situations or counterparty default, this may result in negative differences from the forecast during the remaining months of the 2018 financial year. Conversely, opportunities may result in expectations being exceeded.

Expected macroeconomic trends

In DekaBank's view, the global economy is on the brink of a shift in monetary policy. Given the ongoing global economic recovery, the expansionary monetary policy pursued by central banks over the past decade is moving towards a close. The future performance of the equity markets will depend to a large extent on the form that this paradigm shift takes. If the transition is gentle, it can be assumed that the markets will continue to be bolstered by the upward trends in the economy and profits.

For 2018, moderate growth of around 3.7% and inflation of 3.1% are forecast for the global economy.

We expect gross domestic product in the eurozone to rise by 2.3%. The European economy will thus continue on a stable upward trajectory in 2018. Recovery ought to continue in Spain, Italy, Ireland, Portugal and Greece, contributing to consistent economic growth in the eurozone. Growth in heavily indebted Greece, however, will be sluggish. Owing to a forecast rise in market volatility, DekaBank's assumption for 2018 is that sentiment indicators in the eurozone cannot remain at the same high level as in 2017.

For the US, DekaBank is reckoning on GDP growth of 2.5%, on account of positive business and macroeconomic performance. Growth prospects are thus estimated to be more favourable in the US than in the eurozone. A fundamental change in the direction of monetary policy is not anticipated. The reforms to income tax and corporate taxation brought in at the end of last year may already have an impact on the market in 2018.

In the emerging nations, DekaBank is forecasting economic growth of approximately 5%. Inflation rates will, with a few exceptions, remain low in the coming year, making a tightening of monetary policy unnecessary. In China, substantial changes in the direction of economic policy are not expected in 2018. Nevertheless, the focus on qualitative targets means that growth is likely to lag behind the high rate achieved last year. DekaBank expects the slackening of Chinese economic growth to be a gradual process.

We remain watchful with regard to the reform efforts in the southern eurozone countries and the exit of the United Kingdom from the European Union. It also remains to be seen whether the separatist movements in Spain will have a negative influence on capital investment. The North Korean nuclear weapons programme will continue to lead to regional tension, although Deka's view is that a military escalation is unlikely.

Expected trends in the capital markets

In DekaBank's view, inflation in the eurozone is unlikely to rise in 2018 from its current low level. Given this, the ECB will initially maintain its low-interest-rate policy and will not raise the deposit facility rate until at least mid-2019. A slight increase in money-market rates as a result of the bond purchasing programme, which has been extended for another nine months, albeit in scaled-back form is not to be expected until after next year. In the USA, by contrast, further interest rate hikes by the Fed should be assumed.

DekaBank anticipates only a slight increase in yields on the bond markets. Yields on short-dated German government bonds are likely to remain low, with moderate increases expected for the longer maturities. Yields on US Treasury bonds are also expected to rise slightly.

After significant rises in stock prices in 2017, which have already priced in forecasts of favourable performance in markets and profits, the markets may enter a temporary consolidation phase in 2018, with price corrections occurring accordingly. Investors could exploit this to increase exposure, such that demand for investment funds and savings plan products is expected to continue unabated even if a consolidation phase occurs. Over the medium-to-long term, DekaBank expects to see average stock price growth of between 3% and 5%.

Expected trends in the property markets

After comparatively hefty rent rises in 2017, growth in rental income is likely to slow down in Europe in 2018. Over the next five years, DekaBank expects to see above-average rent rises in the German centres of Berlin, Frankfurt/Main and Munich, as well as in Amsterdam, Oslo, Stockholm and Paris. Large amounts of new construction in the City of London are likely to increase vacancy rates in the British capital and temporarily depress rents. Apart from in London, however, we expect initial yields in Europe to decline only slightly. A rise in yields is only to be expected in the relatively long term, owing to the low-interest-rate environment.

DekaBank expects US rents to stagnate over the forecasting period in the majority of cases. Forecast rent growth is strongest in Atlanta, Seattle, downtown Manhattan and Chicago. The weakest performance is expected in Houston and Washington D.C. Moderate rises in initial yields are likely from 2019 onwards as a result of the cautious base rate increases.

In Asia, the particularly cyclical market of Singapore is likely to have the strongest growth potential in 2019, following on from a period of rental correction. Rental growth in Tokyo, on the other hand, is likely to ease after several years of above-average growth. In Australia, DekaBank expects the strong growth in rents in Sydney and Melbourne to ease off in 2018, with slight increases in Brisbane and Perth. Yields are likely to drop again slightly.

Overall assessment of the economic trends

Overall, the Deka Group expects no significant changes to economic conditions from the 2017 financial year. The macroeconomic environment thus far appears robust in relation to the political and economic uncertainties. The surplus liquidity on the money market driven by ECB policy, and the low interest rates and yields, which are expected to remain low going forward, will continue to create some relatively challenging conditions for the Deka Group. It is to be expected that the liquidity surplus on the capital markets will continued to weigh upon profitability in the banking sector.

A shift in investor behaviour towards bonds, funds and shares is currently observable. Whether this trend will endure will depend chiefly on political factors and regulatory conditions.

Expected business development and profit performance

The Deka Group, as the *Wertpapierhaus* for the savings banks, will continue to focus on the savings banks as association partners. The DekaPro programme launched in 2018 contains significant strategic measures aimed especially at further anchoring customer-centricity in our business model and organisation.

The Group's 2018 economic result is expected to slightly exceed the figure for the year under review. The forecast economic result will thus ensure that DekaBank remains able to distribute profits and make the reinvestments necessary for the purposes of capital management.

A slight increase in total customer assets is forecast for 2018, on the basis of continued high net sales performance in retail and institutional business.

The Asset Management Securities business division anticipates highly positive net sales performance in both retail and institutional business, although, given regulatory changes under MiFID II and the German Investment Tax Reform Act, results are not expected to match the very high levels achieved in 2017. Having made further improvements to the product portfolio on the basis of the revision of the investment process in the previous year, we intend to build market share in the retail sector going forward. The focus will be on special products for multichannel sales. In institutional business, the focus is on continued expansion of the asset servicing platform, including for additional alternative investment solutions and absolute return products, for portfolios that satisfy regulatory requirements on balance sheet and liquidity management at the same time as earning income for institutional customers.

Risks exist *inter alia* in the form of political and macroeconomic impacts leading to falling stock prices and rising risk premiums, as well as in the form of rises in market interest rates due to expectations of higher inflation.

The Asset Management Real Estate business division aims to improve its net sales and its position in the market for institutional business in 2018. Products and services for both savings banks and other institutional customers in connection with the Deka Property Compass are to be further expanded. By further increasing the proportion of certified sustainable properties in our portfolio, we intend to win over a larger number of investors for whom sustainability and returns are criteria of equal importance. The division will keep to its proven quality and stability commitments.

Risks to future performance arise from fierce competition in the transaction markets, which makes transaction planning difficult. Depreciation risks also exist due to the prolonged boom in the property markets.

The Asset Management Services business division will continue to pursue its multichannel strategy and further expand the range of functions and tools for execution-only investing as well as for digitalised asset management in the "internet branch" of the savings banks. This extends to sales support measures, for instance in the form of chat and video communications. The Deka Group intends to cement the competitive position of its depositary business, both through growth in the Group's mutual funds and by obtaining third-party mandates.

Risks to future performance exist *inter alia* in increased pressure on margins for depositaries as well as in the possibility cost increases will arise due to a further tightening of the regulatory requirements for securities business in the retail segment.

The Capital Markets business division will focus more strongly on structured products and thus strengthen its positioning as a provider of products and solutions covering all aspects of customer needs and future regulatory requirements. Continued expansion is also planned of Infrastructure services aimed at simplifying access to the capital markets and of the division's function as a risk platform for the *Sparkassen-Finanzgruppe*.

Risks arise in particular from increased pressure on fees, notably in commission business, a drop in customer activity prompted by political events, and regulatory intervention in the definition of products, terms and conditions.

The Financing business division aims to increase new business in 2018 in its defined core segments. The planned expansion of the lending portfolio will serve as a basis for sustainable contributions to the division's results. Key to this are both the extension of our positioning as a quality leader and a broadening of the product offering in existing asset classes.

Risks include political crises, which could adversely affect the economic outlook for lending segments in which we operate. This could lead to a need for higher loan loss provisions, or to increased capital adequacy requirements as a result of a downgrading of our credit ratings.

Expected financial and risk position

The Deka Group expects to retain its sound financial position in 2018 and anticipates a slight rise in total balance sheet assets, due in part to an increase in lending volumes. Balance sheet management is already geared towards ensuring compliance with the minimum 3.0% leverage ratio that is expected to apply in 2019.

The Group's liquidity position is expected to remain at a comfortable level. It can thus fulfil its role as the liquidity, risk and collateral platform for the savings banks and other institutional customers without restriction.

The fully loaded Common Equity Tier 1 capital ratio will drop during 2018, in line with the planned increase in the volume of specialised finance and property finance. However, it will remain above 13%. There has been a moderate increase in Tier 1 capital as a result of the retention of part of the annual profit for 2017.

In October 2017, the European Banking Authority (EBA) presented a prudential interpretation on the own funds requirements for guarantees on investments in investment funds. The interpretation proposes regulations which, if applied in the proposed or similar form to all guarantee funds and guaranteed fund savings plans, including state-subsidised German private pension plans, could have material impacts on the Deka Group's regulatory capital ratios and its leverage ratio. Industry-wide, they could also have an adverse impact on the range of such products available on the market.

Although a moderate increase is planned in risk capacity usage, it will remain at a non-critical level. The increase will result chiefly from the planned rise in the level of new business in the Financing business division.

Performance of key ratios in the Deka Group *(Fig. 17)*

		31 Dec 2017	Forecast 2018
Economic result	€m	448.9	Slight increase
Total customer assets	€bn	282.9	Slight increase
Net sales	€bn	25.7	Slight decrease
Common Equity Tier 1 capital ratio (fully loaded)	%	16.7	Over 13%
Utilisation of risk capacity	%	34.4	Moderate increase

Opportunities report

Opportunity management

Opportunity management is built into the Deka Group's overall management concept. Opportunities are continually identified and evaluated as part of the strategic process. Decisions on resources to be made available to exploit additional potential in different areas of opportunity are taken on the basis of the expected impact on earnings and probability of occurrence. The assessment of the opportunities portfolio is regularly updated through continuous and intensive market observation – including that carried out by the bank's own research teams – as well as feedback processes established with the savings banks. This allows the Deka Group to actively manage its opportunities and react to new developments swiftly.

Opportunities are defined as positive deviations from the assumptions made for planning purposes over a one-year horizon. These essentially fall into three categories:

- Opportunities arising from changes in circumstances result from market developments that are more favourable than expected. These include regulatory changes or changing investment trends on the part of customers.
- Corporate strategy opportunities are mainly linked to implementation of the DekaPro programme. Positive effects linked to the growth and digitalisation initiatives may be more extensive or occur sooner than assumed in the forecast report.
- Further opportunities exist in that process improvements may be better than planned or positive impacts on results may arise from cost efficiency improvements, likewise in the context of DekaPro.

Current opportunities

The assumptions on economic trends made in the forecast report represent the most likely scenario from the point of view of the Deka Group. Nevertheless, economic trends may turn out to be better than the baseline scenario assumes.

It is thus possible that, contrary to expectations, a substantial rise in index levels could lead to strong growth in total customer assets and have a positive impact on net commission income. The gradual shift away from low interest-rate policies and the oversupply of liquidity to the markets by central banks, which has already tentatively begun in the year under review, could also happen faster than expected in a positive macroeconomic scenario. The resulting increase in yields at the long end, associated with a steepening yield curve, could improve the conditions for investing own funds and managing liquidity.

A favourable macroeconomic scenario such as this would improve general conditions, most notably for securities- and property-related asset management and capital market activities. This scenario is seen as rather unlikely, however.

Opportunities on the market could also be generated by an even stronger shift towards funds for financial savings. However, the Deka Group anticipates that this process will continue to take place only gradually. Nonetheless, if the popularity of funds and certificates should increase, due not least to effective multichannel marketing, this would have a beneficial impact on net sales performance and total customer assets.

Strategic and other opportunities arise in connection with the consistent implementation of the new DekaPro programme. However, the resultant effects have already been incorporated into the planning for 2018, and any further positive impacts on the Deka Group's business and results are therefore unlikely.

Risk report

Risk policy and strategy

The basic principles underlying the Deka Group's risk policy and strategy remain largely unchanged from the previous year. In order to achieve its commercial objectives, the Deka Group accepts certain risks in line with strategic requirements. These risks are limited by a comprehensive risk management system that covers all types of risk and all business divisions, sales and corporate centres in order to ensure the success of the Deka Group as a business. The framework for business and risk management is provided by the general concept of risk appetite (Risk Appetite Framework – RAF), which forms the main basis for assessing the adequacy of internal capital and liquidity (ICAAP/ILAAP) and is an integral part of the Deka Group's strategy system.

Concept of risk appetite

The first starting point for the concept of risk appetite is a description of the desired risk profile that is implied by our customer-centred business model.

To successfully implement its vision of the *Wertpapierhaus* while avoiding conflicts of interest, the Deka Group exploits the advantages arising from the interconnection of its business activities in fund management, lending and capital markets. These activities give rise principally to counterparty, market, business and operational risks, as well as to liquidity risk (which does not directly affect the income statement).

The Deka Group's focus remains on added-value-generating operations that are in demand from both the savings banks and their end customers where the risks are strictly limited and for which adequate expertise is available. As part of the long-term business strategy defined by the Board of Management and the risk strategy consistent with it, risk positions are entered into primarily in connection with customer transactions when they can be hedged on the market.

At the same time, risks are incurred if they are conducive to liquidity management or if they are required to leverage synergies in investment fund business. Business activities in new products or new markets, and the establishment or acquisition of new business units, are undertaken only after a thorough risk evaluation has been performed.

An efficiently structured risk inventory ensures that the Deka Group has an overview of its risk profile at all times. The risk inventory exercise is carried out on an annual basis, and at other times as required, in order to determine which risks could have a significant negative impact on its financial position (including in terms of capital adequacy, earnings or liquidity). In the course of this process, DekaBank takes into account both external as well as internal factors, the underlying assumptions of which are reviewed regularly and on an ad hoc basis as necessary.

Particular consideration is given here to risk concentrations to which the Deka Group consciously exposes itself in connection with its business model. The main examples of this are the Group's focus on the domestic public sector, on German savings banks and their customers, and on selected capital market participants and central counterparties, which is partly due to its function as a securities and collateral platform.

The second starting point for the concept of risk appetite, in addition to the risk profile, is risk capacity – the maximum amount of risk that the Deka Group can accept with respect to its available funds. The risk capacity for profit-affecting risks is set in the course of the economic risk-bearing capacity analysis, while taking due account of risk concentration. It represents the upper limit of acceptable risk and corresponds to the total risk coverage potential of the Deka Group. For liquidity risk (insolvency risk), risk capacity is defined as the amount of free liquidity that is in principle available. It thus corresponds to the positive balance of the funding matrix for normal business operations.

Risk appetite is defined, within the scope of these risk capacity values, as the overall aggregate risk for individual risk types that the Deka Group is willing to accept in order to achieve its strategic objectives and business plan.

The details of the business and risk strategy are specified and quantified as part of medium-term planning. Medium-term planning involves an integrated planning process for profits, capital and risk for the next three years, with account being taken of potential adverse developments.

Risk limits for profit-affecting risks are derived from the risk and capital planning, taking into account the desired risk profile and the available risk capacity (risk capital allocation). The overall risk appetite is laid down as part of this process. It is set via a two-stage process. The maximum risk appetite (i.e. the upper limit) is obtained by deducting a capital buffer for stressed circumstances from the risk capacity. The actual risk appetite for profit-affecting risks is the risk capital allocated for the overall risk position.

Non-financial risks are quantified, insofar as possible, as subcategories of operational risk and business risk. In addition to the quantitative risk appetite, qualitative overall risk tolerance rules are also set so that the particular features of non-financial risks are appropriately reflected. Such risks include compliance risk and reputational risk, among others.

For liquidity risk, the Deka Group has defined its risk appetite such that an indefinite survival horizon exists under an extreme hypothetical stress scenario of a simultaneous idiosyncratic and market-wide stress event. Compliance with this risk appetite is ensured firstly by illustrating the impact of the simultaneous occurrence of institute-specific and market-wide stress events in a "combined stress scenario" funding matrix. As a second step, limits on liquidity balances across all relevant maturities that allow only positive balances ensure that the Group is solvent at all times with an indefinite survival horizon. An early warning threshold set at €1.5bn represents a first escalation level in this context.

The concept of risk appetite also covers procedures for monitoring compliance with allocated risk capital. These include management instruments, regular reporting, rulebooks, controls and processes, as well as risk governance in the sense that roles and responsibilities are laid down for implementing and monitoring risk appetite. Taking risk concentrations into account, the Deka Group has thus established limits for all risks classified as significant during the risk inventory and has implemented rigorous risk management.

The concept of risk appetite described above and the procedures for monitoring compliance with it form one of the three fundamental pillars of the Group's risk culture. They are complemented by sound governance and a remuneration system that encourages appropriate risk behaviour. Processes are in place to ensure that these three pillars are continuously adjusted to changing circumstances. Staff and leadership behaviour – risk culture in the narrower sense – are shaped by the rules set down in the Code of Ethics and by the Deka Principles of Leadership, in addition to the aforementioned formal components.

Strategy process

In accordance with the German Minimum Requirements for Risk Management (*Mindestanforderungen an das Risikomanagement*, MaRisk), the Group uses a systematic strategic process to ensure that its Group-wide business strategy, management and structure, as well as the corresponding divisional and sales strategies and the risk strategy, are reviewed on a regular basis. The reviews consider whether these items are consistent, complete, sustainable and up-to-date. The process covers the planning, implementation and evaluation of the strategies and any necessary adjustments to them. Division-specific targets for risk and profit are used in order to ensure that the business and risk strategy is implemented appropriately in the business divisions.

The individual risk strategies developed for significant types of risk identified during the risk inventory are derived from the Deka Group's risk strategy as well as the strategies of the business divisions. These risk strategies provide specific details regarding risk monitoring and management. They are also reviewed at least once a year, revised if necessary, approved by the Board of Management and discussed with the Administrative Board.

Organisation of risk management and control

Board of Management and Administrative Board

The Board of Management is responsible for the development, promotion and integration of an appropriate risk culture within the Deka Group and is clearly committed to risk-appropriate behaviour. It is also responsible for establishing, enhancing and monitoring the effectiveness of the risk management system. Within the risk management organisation, the Board of Management makes decisions on the Deka Group's strategy and defines the amount of overall risk permitted at Group level. This includes decisions on the form and implementation of the risk appetite concept. The Board also sets the economic capital allocations for the different types of risk and the business divisions, including the Treasury corporate centre and non-core business. In particular, it also decides the limits for the individual risk types at the Group level.

The Administrative Board, together with the committees it has established – the Risk and Credit Committee and the Audit Committee – is responsible for monitoring the Deka Group's risk management system. Prior to every meeting of the Administrative Board, the Risk and Credit Committee meets to discuss in detail matters impacting the Group's risk exposure and risk management. It also reviews the Group's strategic direction with the Board of Management. The Risk and Credit Committee also acts as a credit approval body within the scope of the applicable authorisation guideline. The Audit Committee is an oversight body that concerns itself with the results of internal and external audits. It thereby contributes to ensuring the appropriateness and effectiveness of the Deka Group's monitoring, control and risk management arrangements.

Management committees
The Board of Management is supported in its management role by various management committees.

The Risk Management Committee (*Managementkomitee Risiko* – MKR) meets once a month and advises the Board of Management on matters regarding significant risks at Group level and on addressing, analysing and assessing issues that could have a significant influence on the total risk profile or profitability of the Group. The committee thus makes an important contribution to promoting a Group-wide risk culture. The voting members of the MKR include the Head of the Risk Control department, the managers of the Risk Control, Credit Risk Office, Finance and Risk Control (Capital Market Funds) departments, the COOs for the Asset Management Securities and Asset Management Real Estate business divisions, the COO for the banking divisions & depositary, and the heads of the Compliance and Legal corporate centres. The MKR is supported in this function by sub-committees, which each have individual core duties.

The Management Committee for Assets and Liabilities (*Managementkomitee Aktiv-Passiv* – MKAP), which meets every two weeks, primarily drafts resolutions on matters relating to the management of interest rates, currency, liquidity and refinancing and to the capital and balance sheet structure. In addition, it plays a role in limiting market price risk by making recommendations on the allocation of top-level limits for the Capital Markets business division and the Treasury corporate centre. Measures to be taken in the event of a liquidity crisis are also confirmed in the course of the MKAP's regular review. Membership of the MKAP is made up of the departmental heads responsible for Treasury, Finance, Risk Control and Capital Markets and the heads of the Treasury, Capital Markets, Risk Control and Finance corporate centres.

Sub-committees of the Risk Management Committee
The Stress Testing Committee supports the Board of Management in relation to the overall appraisal of the regular macroeconomic stress tests (covering all risk types) and risk-type-specific stress tests. Stress tests form an integral part of the Deka Group's risk management. The duties of the Stress Testing Committee include in particular the assessment and appraisal of stress test results as well as general responsibility for setting stress test scenarios and processes.

The Models Committee is a Group-wide, cross-divisional body that pools together and assesses current trends and validation issues with regard to valuation and risk models, and prepares content accordingly for the MKR, the Board of Management or general management. The committee thus makes an important contribution to ensuring overarching consistency in the models employed. Furthermore, the Models Committee represents the central operational body for assessing model risks, with the aim of ensuring appropriate treatment of model risk in the Deka Group.

Additional committees that are relevant to counterparty risk management include the Country Risk Committee, which assesses country risk, the Monitoring Committee, which monitors and manages exposures at risk of default, the Risk Provisioning Committee, which performs regular analysis and examination of matters relating to the planning, monitoring and management of loan loss provisions as well as monitoring and managing restructuring and liquidation cases, and the Rating Committee, which monitors developments in the methodology for internal rating procedures and their implementation (see counterparty risk).

The duties of the Risk Talk are to regularly analyse, discuss and make decisions regarding matters in connection with the risk management and monitoring processes in the Capital Markets business division's operational processes. The emphasis is on the assessment, in relation to market or counterparty risks, of matters that could significantly influence the risk profile and/or profitability of the Capital Markets business division.

Business divisions and corporate centres

All business divisions and the Treasury corporate centre operate within the scope of the strategic requirements. In addition, they operate within the scope of framework guidelines set by the Board of Management on the basis of recommendations from the MKR and MKAP. The Treasury corporate centre also manages market price risks in the banking book, liquidity and refinancing of the Deka Group within these limits.

The main responsibility of the Risk Control corporate centre, which is independent of the business divisions, is to develop a standardised and self-contained system to quantify, limit and monitor all significant risks associated with the Group's business activities. Its risk measurement procedures are continually updated in line with economic and regulatory requirements. Risk Control also monitors compliance with the limits approved by authorised decision makers, and immediately reports any limit breaches to them.

The Credit Risk Office corporate centre is responsible for providing a second opinion independent of front office operations, for creating and/or approving ratings and for verifying and approving specific collateral. In addition – acting independently of front office operations – the Credit Risk Office is responsible for closely monitoring and managing non-performing and troubled loans as well as for dealing with restructuring and liquidation cases (work-out exposures). The office also acts as the central statistical monitoring centre for early-stage risk identification.

On behalf of the Deka Group, the Compliance corporate centre covers the regulatory functions of the Compliance Officer as set out in the German Banking Act (*Kreditwesengesetz* – KWG), the German Securities Trading Act (*Wertpapierhandelsgesetz* – WpHG) and the German Investment Code (*Kapitalanlagegesetzbuch* – KAGB). It also covers those functions assigned to the Money Laundering Officer pursuant to the German Money Laundering Act (*Geldwäschegesetz* – GwG) and the KWG, and represents the "Central Office" for the Money Laundering Officer and in relation to the obligations to prevent criminal acts under section 25h KWG. Furthermore, the Compliance corporate centre fulfils the roles of Group Money Laundering Officer, of "Responsible Officer" as required for Qualified Intermediaries (QIs) under the Foreign Account Tax Compliance Act (FATCA), and of Information Security Officer. Alongside the provision of training and advice, the corporate centre reviews controls and procedures implemented by the operational units in relevant areas to determine whether they are appropriate and effective. In this way, by addressing any issues with the respective responsible specialist units, it enables compliance risks to be minimised for the Deka Group.

The Internal Audit corporate centre is an independent unit that supports the Board of Management and other management levels in their control and monitoring functions. It examines and assesses all activities and processes on the basis of an annual audit plan that is drawn up with a risk-based approach, using a scoring model, and then approved by the Board of Management. One of the unit's most important tasks is to evaluate the business organisation with a focus on whether the internal control system and, in particular, risk management and monitoring are suitable and appropriate. Internal Audit also audits compliance with legal, regulatory and internal banking requirements. The Administrative Board is responsible for monitoring the internal audit system.

In addition, all corporate centres and business divisions are responsible on a decentralised basis for identifying, measuring and managing their respective operational risks.

Organisational structure of risk management in the Deka Group *(Fig. 18)*

		Counter-party risk	Market price risk	Liquidity risk	Operational risk	Business risk	Sharehold-ing risk	Property fund risk
Administrative Board								
Risk and Credit Committee	- Overview of current risk situation/risk management system - Discussion of strategic direction with Board of Management - Credit approval body	●	●	●	●	●	●	●
Audit Committee	- Reviews results of internal and external audits	●	●	●	●	●	●	●
Board of Management	- Determines strategic direction - Responsible for Group-wide risk management system - Sets return on equity target and allocates risk capital to risk types and business divisions - Sets overall limit and approves limits within risk types	●	●	●	●	●	●	●
Management Committee for Risk (Management-komitee Risiko – MKR)	- Assists the Board of Management in matters relating to significant existing and prospective risks - Supports the Board of Management with the evaluation of issues that have a significant effect on the overall risk profile - Prepares draft resolutions for the Board of Management and makes decisions within the scope of the authority granted to it - Supplemented by various sub-committees	●	●	●	●	●	●	●
Stress Testing Committee	- Assesses and appraises stress scenarios and stress test results - Specifies stress testing processes - Reports and makes recommendations for action to the Board of Management	●	●	●	●	●	●	●
Models Committee	- Assesses current trends and validation issues with regard to valuation and risk models - Central operational body for assessing model risks	●	●	●	●	●	●	●
Country Risk Committee	- Assesses country risks	●						
Monitoring Committee	- Monitors and manages non-performing loans and loans on the watch list	●						
Ratings Committee	- Enhances and maintains internal rating procedures	●						
Risk Provisioning Committee	- Plans, manages and monitors loan loss provisions - Monitors and manages restructuring and liquidation cases	●						
Risk Talk	- Supports the MKR/Board of Management in connection with risk management and monitoring processes in the Capital Markets business division's operational processes - Emphasis on market price and counterparty risk	●	●	●	●	●		
Management Committee for Assets and Liabilities (Management-komitee Aktiv-Passiv – MKAP)	- Supports the Board of Management in matters relating to interest rate and FX management, liquidity and funding management, capital and balance sheet structure management - Proposes, introduces and monitors risk-mitigating measures in liquidity emergencies - Prepares draft resolutions for the Board of Management	●	●	●	●	●	●	●

		Counter-party risk	Market price risk	Liquidity risk	Operational risk	Business risk	Sharehold-ing risk	Property fund risk
AM Securities business division	- Conducts transactions in line with strategic guidelines	●	●	●		●	●	●
	- Identifies, measures and manages operational risks on a decentralised basis				●			
AM Real Estate business division	- Conducts transactions in line with strategic guidelines	●	●	●		●	●	●
	- Identifies, measures and manages operational risks on a decentralised basis				●			
AM Services business division	- Conducts transactions in line with strategic guidelines	●	●	●		●		●
	- Identifies, measures and manages operational risks on a decentralised basis				●			
Capital Markets business division	- Conducts transactions in line with strategic guidelines	●	●	●		●		
	- Makes decisions within the guidelines proposed by the MKAP and established by the Board of Management and sets limits within the division		●	●				
	- Identifies, measures and manages operational risks on a decentralised basis				●			
Financing business division	- Conducts transactions in line with strategic guidelines	●		●		●	●	
	- Identifies, measures and manages operational risks on a decentralised basis				●			
Treasury (Corporate Centre)	- Conducts transactions in line with strategic guidelines	●	●	●				
	- Makes decisions within the guidelines proposed by the MKAP and established by the Board of Management and sets limits within the corporate centre - Manages market price risks in the banking book, manages the liquidity and refinancing of the Deka Group		●	●				
	- Identifies, measures and manages operational risks on a decentralised basis				●			
Risk Control (Corporate Centre)	- Develops and updates system to quantify, analyse and monitor risks - Reports to Board of Management and Administrative Board - Determines/monitors risk-bearing capacity - Monitors approved limits	●	●	●	●	●	●	●
Credit Risk Office (Corporate Centre)	- Administrative office for early risk identification - Market-independent second recommendation - Reviews and/or approves ratings - Checks certain collateral - Monitors management of non-performing and troubled loans	●						
	- Identifies, measures and manages operational risks on a decentralised basis				●			
Equity investments (Corporate Centre for Strategy and Equity Invest-ments)	- Manages equity investment portfolio						●	
	- Identifies, measures and manages operational risks on a decentralised basis				●			
Compliance (Corporate Centre)	- Functions as Compliance Officer as set out in the German Banking Act (KWG), German Securities Trading Act (WpHG) and German Investment Code (KAGB), as Money Laundering Officer pursuant to the German Money Laundering Act (GwG) and as Central Office in line with the requirements of the KWG - Functions as Responsible Officer under QI and FATCA - Monitors IT security measures				●			
IT Security & BCM (IT Corporate Centre)	- Implements IT security measures and is responsible for business continuity management				●			
Other Corporate Centres	- Identify, measure and manage operational risks on a decentralised basis				●			
Internal Audit (Corporate Centre)	- Audits and evaluates all activities/processes (especially risk management system)	●	●	●	●	●	●	●

Three Lines of Defence model

Risk management involves active management of the Deka Group's risk position. The distribution of risk-related activities and associated controls across several organisational units requires proper assignment and delineation of the respective responsibilities and functions. Ever greater significance is attributed to an effective and properly functioning risk management system across all organisational units, which has no control gaps, conflicts of interest or redundancy and takes into consideration the risk strategy of DekaBank. This also promotes clear-cut governance.

The "Three Lines of Defence" model practised by DekaBank is designed to ensure compliance with and verification of the risk framework stipulated by the risk strategy. The operational business units responsible for exposures are – as the first line of defence – responsible for managing, assessing and quantifying the risks identified in any business conducted. This also includes transactions to minimise total risk at Group level in day-to-day operations. The controls forming the first line of defence are supplemented and enhanced by the independent downstream organisational units that carry out risk management functions as part of the second line of defence (e.g. the Risk Control, Credit Risk Office and Compliance corporate centres). These units monitor compliance with the requirements of corporate policy independently of trading operations. The third line of defence is the Deka Group's Internal Audit department, which also exercises its functions independently.

It is ensured that the requisite personnel resources are available to carry out the control functions, both in terms of the staff capacity needed to assess and monitor risks and in terms of the sufficient capability of the staff concerned. The systems and equipment provided for all control functions ensure that the ongoing processing, management and monitoring requirements arising from the nature and scope of the business carried out are met.

Further developments in risk management

During the year under review, the Deka Group refined parts of its risk management and control both in organisational terms and in terms of risk modelling, taking due account of regulatory requirements.

MaRisk, the document which forms the basis of regulation in Germany, was amended in line with new European and international requirements by way of the fifth revised version, which was passed by BaFin and the Deutsche Bundesbank in October 2017. As a systemically important institution, the Deka Group is subject to direct ECB supervision and thus applies and implements European regulations in any case. The key amendments to MaRisk with respect to data aggregation, risk reporting, risk culture and outsourcing thus do not represent substantial new requirements for the Group.

The new requirements regarding the architecture and quality management of risk data and the associated reporting largely correspond to the Principles for Effective Risk Data Aggregation and Risk Reporting issued by the Basel Committee (BCBS 239), implementation of which continued during the year.

The additional MaRisk requirements regarding risk culture and governance are also already in the course of being implemented. During the second half of the year, a risk culture project was carried out with the aim of building up a DekaBank-specific risk culture process and anchoring it within a concrete framework. The new, more precise demands under MaRisk with regard to risk governance relate *inter alia* to the requirement that the risk control function be headed by a Chief Risk Officer who is responsible neither for finance and accounting nor corporate organisation and IT. As DekaBank had already implemented these requirements, the identity of the heads of the internal control functions did not change during the year. Manuela Better, the member of the Board of Management responsible for risk, thus remains in charge of the risk control function, while Harald Alberts and Dr Matthias Pfeiffer remain the heads of the Compliance and Internal Audit departments respectively.

Risk governance was also strengthened by the organisational separation of the development and validation of risk models, which was carried out in the second quarter of 2017. This measure should also be viewed in context of the ongoing supervisory review of internal models under Pillar I of the Basel capital regulations (Targeted Review of Internal Models – TRIM). The review is based on the internal ratings-based approach to credit risk (IRBA), the internal models approach to market risk (IMA) and the internal model method (IMM) for estimating exposure to counterparty risk. To date, DekaBank has conducted an on-site review of the market risk pillar. The aim of TRIM is to reduce the variability of model results and thereby increase confidence in internal models.

The new MaRisk requirements regarding outsourcing management largely reflect the auditing practice that the supervisory authority has long recommended. One of the new requirements is for a central outsourcing management office with documentation, support and coordination duties, which is to be established depending on the nature, scope and complexity of the outsourced activities. The Deka Group's Central Outsourcing Management (ZAMD) section coordinates the evolution of the outsourcing strategy, lays down overarching governance rules for outsourcing, assists with their implementation and checks compliance with requirements. ZAMD also acts as the link between the Board of Management of DekaBank and the senior management of other Deka Group companies on the one hand and the departments responsible for non-centralised outsourcing management on the other. Restrictions on the outsourcing of control and core banking areas are strictly observed.

The potential economic impact of changes to the Credit Risk Standardised Approach (CRSA) and the Internal Ratings Based Approach (IRBA) that are currently planned as part of the finalisation of Basel III (Basel IV) continues to be monitored. The same applies with regard to the Fundamental Review of the Trading Book (FRTB) and the scheduled introduction of the new Standardised Measurement Approach (SMA) to calculating operational risk capital, both of which could also potentially affect Pillar II of the Basel framework.

In addition, an on-site audit of operational risk management was carried out at DekaBank on behalf of the ECB in the first quarter of 2017. The audit focused in particular on the procedural aspects of the operational risk management system. The final audit report, made available at the year-end, concludes that DekaBank's procedures and processes are generally in line with the requirements under section 25a of the German Banking Act.

The aggregate effect of the adjustments made during the year to the risk models was to increase risk. Despite these effects, utilisation of risk capacity remained at a non-critical level overall.

The expanded mapping of the general interest rate risk for guarantee products and pension obligations, which came into operation in the third quarter of 2017, led to a noticeable increase in market price risk in the Asset Management Securities business division. It also resulted in an increased deduction for pension risk and thus to a decrease in risk capacity and maximum risk appetite. The adjustment results mainly from taking account of the interest rate risk on the liability side. A stochastic model for the yield curve also came into operation for guarantee products at the year-end. The model takes account of diversification effects between funds and interest rates. This resulted in a reduction of market price risk at the year-end relative to the third quarter.

Changes to the loan portfolio model implemented at the start of 2017 also led to a moderate increase in counterparty risk. In addition to the revision of the factor model, the number of migration matrices was reduced and the parametrisation of loss ratios was updated. The overall limiting of shadow banking exposures – in line with European Banking Authority (EBA) requirements – was likewise implemented from the start of the year. Shadow banking entities include, among others, money market funds, credit funds and inadequately regulated credit institutions.

Methodology changes in relation to business risks led overall to a reduced risk level in the year under review. Changes to models included the adoption of a VaR approach based on planned commission income and relevant risk factors, in place of the gross method followed in banking business.

The management and monitoring of liquidity risk was improved by way of an adjustment to the model. Instead of the relative prolongation rates previously used for accounts and deposits, which fluctuate from day to day based on the current portfolios, annually calculated absolute floor values are used. These floor values are constantly monitored and recalculated only if threshold values are exceeded. This leads to a stabilisation of liquidity balances.

Overall risk position of the Deka Group

The risk position presented in the risk report relates to the Deka Group's risk position overall, and therefore corresponds to the definition used as the basis for presentation of the Deka Group's business development and profit performance in the economic report. The report focuses on risks that are relevant from the point of view of the Group. Opportunities that might be used to counteract an increase in risk are presented separately in the opportunities report.

Risk definitions, concentrations and measurement

The individual risk types for the purposes of risk monitoring and risk management are derived from the annual risk inventory. Risk types considered to be significant, which are backed by economic risk capital, include market price risk, counterparty risk, operational risk, liquidity risk and business risk. Liquidity risk is also classified as significant but is managed and monitored outside the risk-bearing capacity analysis.

A distinction is drawn between financial and non-financial risks, based on the context in which risks are incurred and/or arise. Financial risks are incurred consciously in direct connection with individual transactions in order to generate income. Non-financial risks, by contrast, are inherent in a particular business activity but are not incurred in order to achieve profit. Non-financial risks include, in particular, operational risk and business risk.

Counterparty risk

Counterparty risk is the risk of financial loss resulting from the deterioration in the creditworthiness of a borrower, issuer or other counterparty (migration risk) or when the counterparty is unable to fulfil its contractually-agreed obligations, or unable to fulfil them in a timely manner (default risk). Counterparty risk also includes country risk in the form of transfer risk, which results not from the business partner itself, but instead is due to its location abroad.

In principle, the Deka Group makes a distinction in counterparty risk between position risk, advance performance risk and potential future exposure (PFE) risk. Position risk comprises borrower and issuer risk, as well as replacement risk and open position risk. Borrower risk is the risk that outstanding loan payment obligations to the Deka Group will not be paid or will not be paid in a timely manner. Issuer risk is the analogous counterparty risk associated with securities. Replacement risk is the risk that if a business partner were to default, a replacement transaction would have to be conducted at less favourable market conditions. Open position risk (performance disruption) results if a delay occurs in the performance of a contractually agreed obligation by a business partner. Advance performance risk represents the risk that a business partner will not pay the contractually agreed consideration after advance performance has been rendered by the Deka Group. Potential future exposure (PFE) risk comprises the risk arising from potential market price fluctuations in relation to repo loan transactions, synthetic lending transactions and other derivatives transactions.

Market price risk
Market price risk describes the potential financial loss from future market fluctuations over a fixed time horizon and hence includes interest rate risk (including credit spread risk), currency risk and share price risk.

General interest rate risks result from changes in currency-specific swap curves, with different fixed-rate periods having an effect as well. These risks also include volatility risk in interest rate derivatives and options (cap/floor and swaptions).

Credit spread risks depend on changes in the issuer-specific premiums on the reference curves. These premiums depend primarily on the creditworthiness of individual issuers or sectors. Premiums for individual issues (residual risks) are also relevant.

Share price risks (including property fund risks as from 2018) are mapped as risk factors via the individual shares, indices or funds and are influenced by risks arising from share or index volatility. The associated option risks or volatility risks are also taken into account here. Currency risks reflect changes in exchange rates.

The process for identifying and quantifying these risks does not differentiate between the trading book and banking book; the same procedures are applied for all DekaBank portfolios, irrespective of the portfolio type. In addition, market price risks are calculated taking into account guarantees that the Deka Group has provided for individual investment funds and are subject to a corresponding economic capital allocation.

Liquidity risk
In terms of liquidity risk, the Deka Group makes a distinction between insolvency risk (liquidity risk in the stricter sense), liquidity maturity transformation risk and market liquidity risk.

Insolvency risk describes the risk that the Deka Group will be unable to meet its current and future payment obligations in a timely manner because liabilities exceed the available liquid funds.

Liquidity maturity transformation risk describes the risk that arises from a change in DekaBank's own refinancing curve in the event of imbalances in the liquidity-related maturity structure.

Market liquidity risk is understood as the risk that transactions cannot be settled or closed out, or can only be settled or closed out at a loss, due to inadequate market depth or because of market disruptions.

Operational risk
Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Operational risk also includes legal risks as long as these do not refer to future business activities. Reputational risks as a result of loss events are not included in the calculation of the loss potential, but they are taken into account in methods and procedures and are assessed from a qualitative perspective.

Business risk
Business risk concerns adverse variances from plan that result from changes in customer behaviour, competitive conditions or the general economic and legal framework. The Deka Group considers all factors that have an unexpected negative impact on profit as a result of volume and margin changes, and are not attributable to any other type of risk, to be material.

Reputational risk

Reputational risk describes the danger that developments and loss events that have occurred in connection with other types of risk may have a negative impact on the external image of the Deka Group, thereby diminishing the trust that customers, business and sales partners, rating agencies or the media have in the Bank's competence. This can lead to additional losses, declining revenue, lower liquidity levels or a lower enterprise value. In view of this, reputational risks are not seen as a separate type of risk, but rather as a component of, or as factors that increase, business and liquidity risk.

Model risk

Model risk refers firstly to potential losses arising from errors in the design, implementation or use of valuation or risk models, or from incorrectly evaluating the appropriateness of a particular model. It is treated as a sub-category of operational risk. Model risks are incorporated directly into the Deka Group's risk-bearing capacity by developing and assessing corresponding scenarios as part of the self-assessment process.

Model risk also describes the risk of potential losses arising as a result of the deliberate selection, specification, choice of parameters or calibration of models, and that as a consequence could lead to uncertainty in valuation or, where relevant, to their being insufficiently taken into account in risk-bearing capacity.

Model risks in relation to valuation models are directly recognised by creating appropriate provisions for models under liabilities. By contrast, model uncertainties arising from the specifications of risk models are viewed in conjunction with the respective risk type and specifically examined using detailed validation exercises. If necessary, a buffer is created for model uncertainties as part of the annual risk capital planning process; this reserved economic capital will consequently no longer be available for allocation.

Further types of risk

The risk inventory process has identified other types of risk for which economic capital is set aside. Currently, however, these risks have only a minor influence on the Group's risk-bearing capacity. These include shareholding risk and property fund risk.

The Deka Group defines shareholding risk as the risk of financial loss due to impairment of the portfolio of equity investments, insofar as they are not consolidated in the balance sheet and therefore already included under other types of risk.

Property fund risk results from the possibility of an impairment in the value of property fund units held in the Group's own investment portfolio. It will be treated as an aspect of market price risk from 2018 onwards.

Other non-financial risks identified during the risk inventory are covered by superordinate risk categories. These include, for instance, conduct risk and tax risk, which are dealt with especially within the scope of operational risk. Qualitative risk tolerance rules also exist for each of these risks.

Risk concentrations

Risk concentrations describe those risks arising primarily from an uneven distribution of business partner relationships or an uneven sensitivity of the portfolio in relation to major risk factors which could subsequently lead to significant economic losses for the Deka Group.

Risk concentrations can occur both within the major risk types (intra-risk concentrations) as well as across different significant types of risk (inter-risk concentrations). These are a focus of risk management and monitoring in terms of tools looking at specific types of risk as well as those that apply across risk types.

Division-specific risk profiles

The divisional structure was altered with effect from the beginning of 2017. Activities are now divided into five business divisions: Asset Management Securities, Asset Management Real Estate, Asset Management Services, Capital Markets and Financing. This creates enhanced governance and an even clearer separation at leadership level between banking business and asset management.

Asset Management Securities business division

Because of its focus on the active management of securities funds and investment solutions and services, this division principally generates operational and business risks for the Deka Group. These may be exacerbated by reputational risks in connection with the "Deka" brand or other Deka Group brands. In addition, managed guarantee products create counterparty and market price risks for the Deka Group.

Asset Management Real Estate business division

As with Asset Management Securities, the principal operational and business risks in this business division arise from active fund management.

Asset Management Services business division

This business division, too, principally generates operational and business risks for the Deka Group. These result from the provision of banking services for asset management.

Counterparty and market price risks also arise to a small degree from the operations of S Broker, which is included in this division.

Capital Markets business division

Customer-led business activity in the Capital Markets business division gives rise in particular to market price, counterparty and issuer risks. These arise primarily from currency, securities lending and securities repurchase transactions, from trading in financial instruments with financial institutions, savings banks, funds and companies, and in relation to DekaBank's strategic investments. In relation to the division's liquidity investments, credit spread risks and, to a lesser extent, interest rate risks arise in relation to the market price risk in the strategic investments unit. In addition, the division consciously exposes itself to risk concentrations, principally in relation to supplying liquidity in order to support Deka funds and the savings banks. As the central securities and collateral platform in the association, the Deka Group generates economies of scale and scope. This results especially in concentrations with increased gross risk in relation to individual major banks, market makers that act for the Deka Group and central counterparties. Risk concentrations also exist in relation to individual Landesbanks as association partners. The collateral in securities lending transactions can also give rise to risk concentrations in collateral, which are limited by the rules in the Collateral Policy.

Financing business business division

The business activities of the Financing business division in the segments it focuses on (essentially the financing of savings banks, infrastructure, and vehicles, as well as ECA-backed export finance) create corresponding focal points, primarily in counterparty risk. In accordance with the business model, this also leads to regional risk concentrations in Germany, as well sector-based risk concentrations in relation to the financial sector.

In addition to specialised financing, DekaBank's real estate financing has also been classified within the division since the start of 2017 (having previously been classified within the Real Estate business division). Real estate financing also leads primarily to counterparty risks, although such lending usually involves individual loans with a varying regional focus.

Treasury

The Treasury corporate centre's various functions, especially management of the liquidity reserve, give rise to counterparty risk, chiefly from investments focusing on Germany and the public sector. Market price risks consequently arise (primarily in relation to credit spreads), as do liquidity risks.

Non-core business

The activities classified as non-core business also give rise primarily to counterparty and market price risks. Going forward, the Group aims to decrease its risk position here even further by continuing to reduce volumes while safeguarding assets.

On account of the low gross loan volume, the remaining non-core business portfolios were fully transferred to the Capital Markets business division as of 1 January 2018.

Risk management instruments covering all risk types

The Deka Group essentially uses three tools for overall management and monitoring of the risks that result as part of the strategic requirements of the Group's business activities. These tools comprise the risk inventory, risk and capital planning, risk-bearing capacity (including stress testing) and capital allocation. These are supplemented by specific individual tools for the operational management and monitoring of individual types of risk. These individual tools are described in the sections covering the individual risks.

Risk inventory

The Deka Group determines and assesses its overall risk profile using a risk inventory that is performed on both a regular and an ad hoc basis. All significant risks and the associated risk concentrations are identified in this process. The risk inventory is the starting point for the analysis of risk-bearing capacity and, together with the risk strategy, forms the basis for the design of further risk management tools. It is divided into a preliminary analysis, a review of the risk universe for relevance and materiality to the Deka Group and the individual business divisions, and preparation of the results. In addition, major risk issues for the Deka Group are discussed each month by the MKR.

Risk and capital planning

The risk-bearing capacity of the Deka Group is determined both in terms of the current situation and based on forecast business activity. As part of the medium-term business planning process, DekaBank's Board of Management sets out the risk appetite for operational activities and its allocation to the individual types of risk and for the business divisions, covering the next three budget years. This process also allows potential risk concentrations to be effectively addressed at an early stage. Any adjustments needed during the year are undertaken when recommended by the MKR and adopted by a resolution of the Board of Management.

Risk-bearing capacity and capital allocation

In principle, risk-bearing capacity is used to determine the maximum level of risk that can be incurred (impacting the income statement), taking into account risk concentrations. Risk-bearing capacity is analysed monthly. In the course of the analysis, the risk capacity (in the form of risk coverage potential) and the current risk level are determined, compliance with the guidelines and limits is monitored and current results are compared to plan. The Deka Group's total risk, as examined in the risk-bearing capacity analysis, includes as a minimum all material risk types with an impact on the income statement, and is determined by adding these together. Diversification effects between individual types of risk are not taken into account as part of this process. The total risk of the Deka Group is measured as an economic capital amount that is highly likely to be sufficient to cover the losses from all significant risk positions at any time within one year.

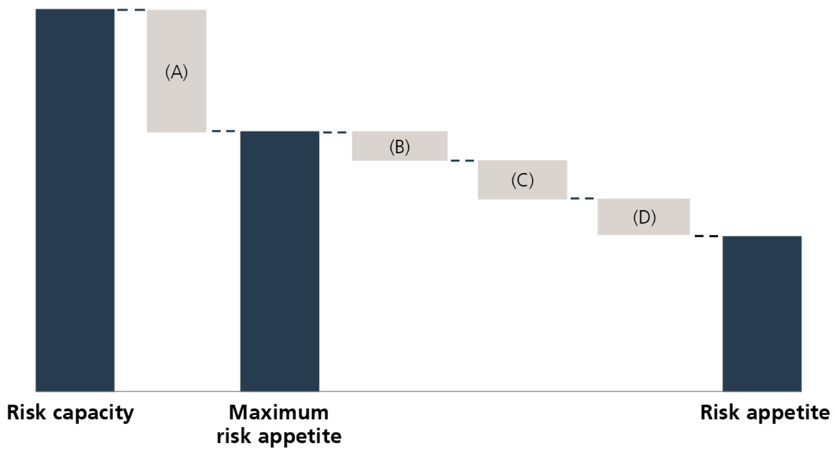
DekaBank uses the value-at-risk approach (VaR) in order to quantify individual risks on a uniform basis and to aggregate them as an indicator for overall risk. The calculation of VaR for a one-year holding period is made for internal management purposes with a confidence level of 99.9%. This level is derived from the business model with reference to an S&P rating at the level of a stand-alone credit profile of "a–".

The total risk of the Deka Group that is derived from the individual types of risk is compared to the Group's risk cover potential available to offset losses. The total available risk cover potential, i.e. the risk capacity, consists mainly of equity capital in accordance with IFRS and earnings components and positions with a hybrid capital nature (subordinated capital), adjusted using amounts to correct for specific capital components, such as intangible assets or risks arising from pension obligations. This risk cover potential is available – in the sense of a formal total risk limit – to safeguard risk-bearing capacity.

In order to reflect extreme market developments and turbulence within the risk-bearing capacity analysis and ensure that risk-bearing capacity is maintained at all times, a capital buffer derived from the risk capacity is explicitly reserved for stress scenarios. This corresponds at a minimum to the level of subordinated capital components, including Additional Tier 1 capital. The maximum risk appetite, which is the result of risk capacity less the capital buffer for stress scenarios, represents the primary control parameter for the allocation of risk capital.

Taking into account other deductions (for example, a buffer for model uncertainties in relation to the risk models used) as well as an allocation reserve, this results in risk capital, which the Board of Management allocates to the business divisions (including the Treasury corporate centre and non-core business) and to risk types (including property fund risk and shareholding risk) in the form of risk appetite.

Risk capacity and risk appetite *(Fig. 19)*



(A) Less maximum of subordinated capital components and buffer for stress scenarios
(B) Less hidden losses and reserves and own credit rating effects
(C) Less buffer for model uncertainties
(D) Less allocation reserve

The utilisation ratios for risk capacity, the maximum risk appetite and the allocated risk capital in the form of risk appetite may not exceed 100%. For the utilisation of the maximum risk appetite, a warning threshold of 90% has been established as part of risk reporting.

As a supplementary risk-bearing capacity assessment procedure, the Deka Group also regularly determines its risk-bearing capacity on the basis of the going concern approach. Here the primary focus is on the extent to which and how often (time horizon) the Deka Group can incur risks without endangering its ongoing existence, while simultaneously complying with the relevant regulatory capital requirements. This means that in principle risks can only be incurred to the extent that capital components are not already committed due to compliance with previously defined secondary conditions. Secondary conditions that are taken into account include both a Common Equity Tier 1 capital ratio of 10.9% as an advance warning threshold and a Common Equity Tier 1 capital ratio of 9.9% as a threshold value. Under the going concern approach, risks are considered based on the assumed continuation of the business and intention to hold investments to maturity and with regard to the time horizon deemed relevant to risk management. DekaBank evaluates risks under the going concern approach with a confidence level of 95.0% and a holding period of one year, which corresponds to a time horizon of once in 20 years. Given changes to the regulatory requirements in relation to concepts of risk-bearing capacity, it is expected that this supplementary procedure will cease to be carried out from 2018 onwards.

The results of the risk-bearing capacity analysis and the utilisation levels for the specified allocations are determined monthly and reported to the Board of Management. The Risk and Credit Committee and the Administrative Board are informed on a quarterly basis.

Stress tests and scenario analyses

Economic risk-bearing capacity is regularly assessed by way of macroeconomic stress tests, which cover all types of risk and enable an estimate to be made of how risk capacity would be affected by extreme market developments. Specific scenario analyses are also carried out for all material risk types. Macroeconomic stress tests and risk type-specific scenario analyses enable action areas to be identified at an early stage as soon as crisis situations emerge.

In the stress tests performed across all risk types, extraordinary but nonetheless plausible scenarios are examined. These cover historical scenarios, such as the crisis on the financial markets, hypothetical stress situations, such as the default of important individual counterparties, and idiosyncratic stress situations. Reputational risks are also systematically included in the stress tests. Furthermore, the Deka Group also performs reverse stress tests, examining specific manifestations of scenarios that would lead to the risk capacity being reached in the specific context of the Deka Group's business model, taking into account the associated risk concentrations. When needed, the scenarios are supplemented with relevant ad hoc analyses.

The effects on risk-bearing capacity of the various all-risk stress scenarios are quantified for one year after the underlying date of the stress test. This includes both the scenario-specific determination of risk capacity and the overall risk position. These key figures are calculated in a two-step process. In step one, relevant risk drivers and risk factors are determined on the basis of macroeconomic and, where applicable, scenario-specific parameters. In step two, the figures are then calculated on this basis. The same risk exposures are used to determine the overall risk position as are used to evaluate current risks.

Calculations for risk type-specific scenarios also indicate the sensitivity of risk exposures in isolation with respect to different relevant risk drivers.

The results of the all-risk and risk type-specific stress tests are determined quarterly, assessed by the Stress Testing Committee and reported to the Board of Management, the Risk and Credit Committee, and the Administrative Board.

The regular annual reviews of the scenarios performed across all risk types were carried out in the third quarter of 2017. In general, it was found that the scenarios examined continue to provide an appropriate reflection of all risks relevant to the Deka Group. An update was made to the economic description of hypothetical and idiosyncratic stress scenarios, and some aspects of the parametrisation were adjusted. In particular, a hypothetical scenario concerning the euro debt crisis was updated in light of current politico-economic developments in the eurozone.

Reporting

Appropriate and high-quality aggregation of risk data and reporting based on this provide the foundations for effectively monitoring and managing risk appetite within the framework of the risk strategy. Key instruments for risk reporting include firstly the monthly reporting on the economic risk situation and on the key regulatory liquidity ratios, and secondly the quarterly risk report in accordance with MaRisk, which provides the Board of Management and the Administrative Board with a comprehensive overview of risk-bearing capacity and the significant types of risk. Furthermore, the Board of Management receives summary reports containing the key points on the current risk situation and on the corresponding utilisation of risk-bearing capacity. Depending on the type of risk, these reports may be provided on a daily basis or at a minimum once a month.

Risk concentrations in relation to individual counterparties (cluster risks) are reported on a monthly basis to the Board of Management and to the key risk committees. In addition, a detailed analysis of all individual counterparties classified as clusters and the associated segment concentrations in comparison to the guidelines set by the credit risk strategy is conducted on a quarterly basis as part of the quarterly risk report. If necessary, adjustments are made to the number and volume of the relevant counterparties.

Further overall reports also include quarterly reporting on macroeconomic stress testing, which examines key indicators material to the risk appetite under alternative scenario conditions. In this respect, stress testing performs a crucial early warning function.

Besides these overall reports, there are also corresponding reports for every type of operational limit that is set. These reports are used to monitor compliance with the respective guidelines on a daily basis. Any breach is immediately brought to the attention of the authorised decision maker – and in the event of material breaches, also the Board of Management.

Overall risk position in the 2017 financial year

During the reporting year, the model employed by the Deka Group for economic risk management continued to reflect the corporate and market situation in an appropriate and timely manner. In an environment of moderate interest rates and low volatility, market developments play only a subordinate role in changes to the risk position. Utilisation of the risk appetite limit remained at non-critical levels throughout the reporting period. The Deka Group also had ample liquidity throughout the year.

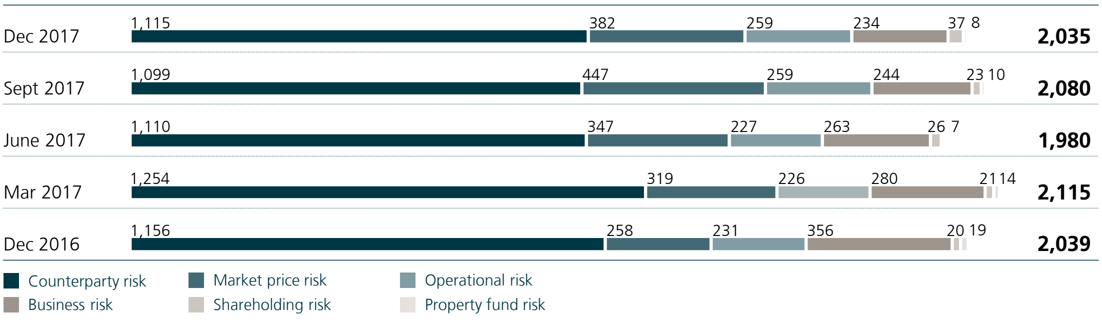
The Deka Group's overall risk exposure (value-at-risk, confidence level 99.9%, holding period of one year) stood at €2,035m as at the 2017 reporting date. This was virtually identical to the previous year's figure (2016: €2,039m), as movements in the different risk types offset one other. Whilst market price risk, operational risk and shareholding risk rose substantially during the year, counterparty risk, business risk and property fund risk were below the previous year's figures, in some cases noticeably so. Utilisation of allocated risk capital was non-critical both at Deka Group level and in all business divisions. Overall risk appetite utilisation stood at just 55.0% at the year-end (2016: 56.0%). The total risk appetite itself was €3,700m, €60m higher than at the end of 2016.

Total risk was virtually unchanged, while risk capacity rose to €5,912m (2016: €5,785m). Positive effects were felt from partial retention of the annual profit for 2016, which bolstered retained earnings, the movement in the revaluation reserve as a result of actuarial gains on pension provisions, and the reduction of deferred tax provisions. This more than compensated the negative effect caused by the increased deduction for risks on pension obligations, which took account of general interest rate risk for the first time. Utilisation of risk capacity was 34.4%, slightly below the level at the end of 2016 (35.2%) and may therefore be regarded, as before, as non-critical.

With an unchanged capital buffer for stress scenarios, the maximum risk appetite, which does not incorporate subordinated capital (including AT1 capital and perpetuals), moderately increased – in parallel with the increase in risk capacity – to €4,412m, relative to the figure of €4,285m at the end of 2016. Utilisation of the maximum risk appetite thus improved slightly to 46.1% as at the 2017 reporting date from 47.6% at year-end 2016.

The stress scenarios that are run on a regular basis across all risk types also confirmed that risk capacity was assured in all scenarios at the end of the year. In the most commonly considered scenarios, risk capacity utilisation was considerably below the early warning threshold of 80%, both during the reporting period and at the reporting date. Exceptions were the two scenarios involving an exacerbation of the euro debt crisis and the collapse of a systemically important bank. A key reason for the substantial risk capacity utilisation is the inclusion in the parametrisation of market shocks that primarily lead to a substantial increase in (counterparty and market price) risk. This effect is exacerbated by modelling adjustments made to the stress scenarios in order to reflect the interest rate risk in respect of market price risks arising on guarantee products.

Change in Deka Group risk over the course of the year *€m (Fig. 20)*



Counterparty risk

Strategic framework and responsibilities

The credit risk strategy stipulates the parameters for all Deka Group transactions that involve counterparty risk. It serves in particular as the foundation for the Group's counterparty risk principles for loans as defined by section 19 (1) of the German Banking Act (KWG) and describes the business divisions and segments that are the focus of lending activities – including the specific risk determinants and minimum standards for new business. Furthermore, the credit risk strategy serves to distinguish between the individual risk segments and governs the handling of intra-risk concentrations and cluster risks. All lending decisions that deviate from the credit risk strategy are classified as significant and must be reported in the credit risk report in accordance with MaRisk.

The credit risk strategy applies to all organisational units of the Deka Group. The strategy is specified by the Board of Management, reviewed at least once a year and discussed with the Administrative Board. Counterparty risks are monitored and managed in accordance with standard principles, regardless of whether the risks stem from trading or non-trading transactions.

In the context of risk-bearing capacity, counterparty risks are limited by allocating risk capital (risk appetite) both overall and at business division level. For individual counterparties, risk is restricted using a limit system based on factors such as creditworthiness, collateral, duration and country and sector considerations. Management and monitoring of risk concentrations (cluster risks) also takes place at individual counterparty level. Depending on the risk segment concerned, strict lending standards are also applied, for instance in connection with structure and adequate risk sharing by the borrower. In addition, a blacklist is used in line with the credit risk strategy to avoid undesirable lending business that could involve reputational risks or an increased level of risk, or which does not meet the high sustainability requirements.

In accordance with MaRisk, there must be a clear functional separation in the lending business between the "front office" and the "back office". The responsibilities performed by the "back office" particularly include monitoring risks at borrower and portfolio level, reporting, reviewing specific items of collateral and making decisions regarding loan-loss provisioning for major exposures. Responsibility for applying rating and risk classification procedures, and for establishing, reviewing and monitoring those procedures is also classified as a back office function, as is the management of non-performing and troubled loans.

Authority levels for lending decisions are based on the net total limit and the gross limit or gross amount. The approval of the Board of Management – and potentially the additional consent of the Credit Committee – may be necessary, depending on the amount and the rating limits.

For the purposes of strategically managing and monitoring counterparty risks and their risk concentrations, a number of sub-committees have been assigned to the MKR. The Rating Committee regularly analyses and assesses the internal rating procedures employed for measuring risk and, where relevant, their inclusion in the pooling system developed in joint projects with Rating Service Unit GmbH (RSU) and S-Rating und Risikosysteme GmbH (SR). The Monitoring Committee is responsible for regularly analysing and discussing matters in connection with the methods and procedures employed for early risk identification as well as for monitoring and managing exposures with increased counterparty risk (non-performing loans and those on the watch list). The duties of the Risk Provisioning Committee include regularly analysing and discussing matters in connection with planning, monitoring and managing loan loss provisions, and also monitoring and managing exposures in serious danger of defaulting (restructuring and liquidation cases) in the lending business as well as in the securities portfolios in the Loans and Receivables and Held to Maturity categories.

Responsibilities for the assessment and monitoring of country risks are consolidated in the Country Risk Committee. The committee discusses country ratings on both a regular and ad hoc basis. It also defines country limits and determines measures to reduce overruns of country limits as well as other risk-reducing measures.

Focus, structure and degree of risk associated with business activities

Counterparty risks are incurred both in the individual business divisions and the Treasury corporate centre.

In the Capital Markets business division, counterparty and issuer risks arise from the currency, securities lending, repurchase and derivative transactions entered into, and from trading in financial instruments in all asset classes. When supporting investment funds and savings banks with the provision and management of liquidity, the division consciously exposes itself to risk concentrations in relation to savings banks, selected capital market participants and central counterparties.

As a result of the business model, the Treasury corporate centre is mainly exposed to concentrations in respect of public authorities and, from a regional perspective, in respect of domestic counterparties.

In the Financing business division, counterparty risk arises from infrastructure, vehicle and export financing, as well as from property finance. The Financing business division also includes business with domestic savings banks as well as financing of the domestic public sector. Due to the limited volume of financing in the division in relation to the Deka Group's total loan volume, there are no risk concentrations in these areas. The business is focused on Germany due to the Group's close involvement in the savings banks association and its transactions with the domestic public sector. There is thus a country concentration as a result of the business model. In addition, the Deka Group's ownership structure and its function in the savings bank association lead to a sector concentration on financial institutions.

In the Asset Management Securities business division, counterparty risks for the Deka Group arise predominantly from contractually binding commitments made in connection with guarantee funds and pension products.

In the Asset Management Services business division, counterparty risk arises primarily from lending business with personal customers conducted by DekaBank Deutsche Girozentrale Luxembourg S.A. and S Broker. Counterparty risk also arises from the two companies' proprietary investments. No risk concentrations exist, as the volume of personal customer business in the Deka Group is small relative to overall lending volumes.

Management and limit-setting

When managing its counterparty risk, the Deka Group makes a distinction between overall analysis at the total portfolio level and operational management, which uses a multi-level system of volume-based limits.

Portfolio model

The starting point for the strategic analysis of counterparty risk is the allocation of capital, which is derived from the calculation of the Deka Group's risk-bearing capacity. It is the foundation for the limitation and monthly monitoring of counterparty risk at total portfolio level and at the level of individual business divisions, including the Treasury corporate centre and the non-core business. The allocation is quantified based on the Deka Group's credit portfolio model, which is used to determine the portfolio's risk of loss in the form of a credit value-at-risk (CVaR) metric for a one-year holding period and at a confidence level of 99.9%, in line with DekaBank's target rating. Risk concentrations are taken into account directly through this model: portfolios that have a strong concentration on individual groups of counterparties, regions or sectors involve a higher economic capital commitment than those that are more diversified. The individual risk ratios are reviewed on a monthly basis to provide a foundation for overall management decisions.

Operating management limits

The Deka Group utilises a system of fixed, complementary volume-based limits for daily operational management purposes. In light of the concentration on specific groups of counterparties, regions and sectors that results from the Group's business model, the limitation of both unsecured volume (net limitation) and the internal framework (gross limitation) plays a central role in this process. The amount of the limits is primarily oriented towards the internal rating of the corresponding counterparties. In order to limit concentration, additional targets have been set for the maximum permitted amount per counterparty (gross limit €3.5bn / net limit €1.6bn). Particularly important counterparties from a business policy perspective (clusters) are also subject to additional reporting above a specific amount. Further minimum requirements for the quality of collateral received apply to repo lending transactions, which are particularly significant. These requirements are contained in the collateral policy. Furthermore, liquidation risks associated with repo lending transactions are further limited by the application of supplementary limits in order to take into account potential fluctuations in the value of the underlying securities.

Loans that involve specific project, sustainability or reputational risks are not entered into. Detailed risk determinants and minimum standards have also been established for the individual financing categories.

The explicit limitation of country risks serves to effectively limit positions in countries with elevated risk. Only the risk position relating to Germany is excluded from this process of limit-setting.

In retail customer lending business, counterparty risks are limited by the provision of collateral.

Quantification of counterparty risk

Gross counterparty risk is mainly determined through market prices and outstanding amounts receivable. The outstanding receivable amount is used for advance performance risk and open items. The adjusted gross position is then calculated by deducting specific insolvency-proof collateral. The overall net position is arrived at by deducting additional collateral and positions that reduce risk, with valuation of collateral following the internal regulations that apply in each case.

In order to achieve consistency between the strategy system, management tools and risk reporting, the concepts of volume used in risk reporting – gross or net loan volume – are closely aligned with the metrics used for limit-setting, namely adjusted gross position and overall net position. Gross and net loan volumes referred to below relate to the adjusted figures.

The assessment of counterparty risks for individual borrowers includes the use of internal rating systems. Borrowers are assigned to an internal rating class with corresponding estimates of the probability of default (PD).

The rating modules currently used are tailored to different classes of receivables, including companies, banks, governments, funds, specialised lending and project financing. These include classic scorecard modules through which creditworthiness is assessed on the basis of current quantitative and qualitative borrower characteristics. Simulation-based modules, in which the probability of default is estimated using simulated macro and micro scenarios for the relevant risk drivers regarding the expected cash flows, are also used. In addition to the modules mentioned above, expert methods are also used for particular types of financing.

When measuring the transfer risk on payment obligations that are denominated in a foreign currency from the borrower's perspective, the borrower rating is influenced by the country rating.

All of the rating modules in use are calibrated to a one-year probability of default. The rating classes are uniformly assigned according to the probability of default based on the master scale of the German Savings Bank and Giro Association (*Deutsche Sparkassen- und Giroverband* – DSGV). This scale serves as a standard reference for a differentiated creditworthiness assessment. The DSGV master scale provides for a total of 21 rating classes for non-defaulting borrowers and three for defaulting borrowers.

Counterparty risks from a portfolio perspective are assessed with the help of an internally developed credit portfolio model. The portfolio model is largely based on a credit metrics approach. In addition to default risks, the risks arising from a change in ratings are also taken into consideration. The probability distribution for changes in the value of the loan portfolio is generated using a Monte Carlo simulation.

A key output of the model is that it determines a CVaR with a holding period of one year and a confidence level of 99.9%. Risk concentrations are taken into account by considering the dependency structure of risk factors. In particular, the modelling approach selected considers dependencies between crisis events. The expected shortfall (ES) is also calculated to supplement the CVaR.

The standard risk costs incorporated into the calculation of the expected return on equity are based on an expected-loss approach and relate to the likelihood of default, the loss rate and the maturity of the transactions. The cost of equity is determined using risk amounts differentiated by individual transaction and corresponding sector and regional allocations. Risk concentrations are included for individual counterparties (clusters), regions and industries by taking into account the cost of equity in the structuring of loan terms.

Management and monitoring of counterparty risks

The Deka Group's counterparty risk, as determined by CVaR, is directly compared with allocated risk capital. In this way, counterparty risks are monitored based on a redistribution of the CVaR to individual transactions and reaggregation to the business divisions.

Counterparty risk positions are managed using a volume-based limitation of the net position and the adjusted gross position. Prior to concluding a credit transaction, a net total limit must be established by the respective authorised decision maker for each borrower and each borrower unit.

In addition – with just a few defined exceptions – a gross limit must be established for each borrower unit. The borrower-related net total limit is divided into sub-limits for position risk, advance performance risk and PFE risk.

As a supplement to its volume-based limits, the Deka Group uses thresholds for risk concentrations in connection with individual counterparties, known as clusters. This entails further precautionary procedures for large exposures and monitoring routines for risk concentrations as appropriate. Thresholds for sectors are not meaningful due to the Deka Group's specific business model, and are thus not taken into account.

The Risk Control corporate centre monitors the limits using a centralised limit-monitoring system at both the borrower-unit level and the borrower level. A comprehensive and market-based early warning system ensures that the individual counterparties subject to limits are monitored so that, in the event of extraordinary developments, countermeasures can be taken at an early stage. At a portfolio level, an analysis of the most significant borrowers and sectors is also carried out, based on CVaR. Maximum country limits are derived from a limit matrix, which is calculated based on a foreign currency (FC) country rating and the gross domestic product. Individual country limits within the limit matrix are approved by the Country Risk Committee. The Risk Control corporate centre monitors compliance with the respective country limits. Overruns are reported immediately to the members of the Country Risk Committee and to the Capital Markets Credit Risk Management unit. This unit acts as the central administrative office for country limits. An analysis of the most significant countries or regions is also carried out from a portfolio perspective, based on CVaR.

The additional investment criteria for securities portfolios in the Treasury corporate centre include stipulations regarding issuers, credit rating and diversification as well as liquidity. Compliance with these rules is monitored daily by Risk Management, which is independent of trading operations. Any breaches are reported immediately. In addition, reporting takes place monthly to the MKR and MKAP. This includes an analysis of the holdings in the liquidity reserve portfolios and the portfolio structure.

The Deka Group has issued extensive processing and valuation guidelines for collateral obtained in lending and trading transactions. The procedures for verifying valuation of collateral received in the course of lending business, including guarantees, sureties, charges on commercial and residential property, registered liens and the assignment of receivables, are applied on an annual basis. Valuation of collateral and of any discounts applied to it is primarily based on the creditworthiness of the party providing the guarantee, or in the case of asset collateral, on the market value, fair value or lending value of the financed property.

Management and monitoring activities also focus on financial collateral provided in the form of securities and obtained as part of repo lending transactions. These comprise by far the largest share of the collateral portfolio as compared to the lending business.

The Group's collateral policy defines the minimum requirements for counterparties and for securities borrowed by counterparties, or the securities received from counterparties as collateral in repo lending transactions. In addition, risk concentrations are restricted for each counterparty using concentration limits for equities and bonds, and rating-dependent volume restrictions.

The Capital Markets business division is responsible for compliance with the requirements of the collateral policy. It is supported operationally in this regard by the Capital Markets Collateral Management unit. A review independent of trading is performed daily by the Risk Management unit. In addition, an analysis of collateral is reported to the MKAP on a monthly basis.

Performance of stress tests

In addition to the macroeconomic stress tests performed across all risk types, additional sensitivity tests are conducted specifically for counterparty risk. Examples of scenarios include a rating downgrade for public authorities, federal state banks and savings banks, as well as an increase in loss ratios or the failure to take account of certain collateral types. The results of the stress tests are determined quarterly and reported to the Stress Testing Committee, the Board of Management, the Risk and Credit Committee and the Administrative Board. They therefore enable the Group to identify areas for action as early as possible if crisis situations start to unfold.

Default monitoring

The Monitoring Committee is operationally responsible for monitoring and managing non-performing loans and those on the watch list. This includes specifying early warning indicators and criteria to allocate exposures to different monitoring levels.

Operational responsibility for monitoring and managing restructuring and liquidation cases lies with the Risk Provisioning Committee. The latter is also responsible for regularly analysing and discussing matters in connection with planning, monitoring and managing loan loss provisions.

When establishing loan-loss provisions, loan receivables are reviewed individually to determine whether there is objective evidence of impairment. If the Bank identifies an impairment, it recognises a specific provision in the corresponding amount. For receivables against which no specific provision is made, default risk and transfer risk are taken into account by recognising general provisions at the portfolio level. Portfolio-level general provisions for creditworthiness risks relate to impairments in the credit portfolio that had already occurred at the reporting date but which had not yet been identified. General portfolio provisions for country risks must be recognised where the internal rating on the DSGV master scale is 10 or worse (for further information on the creation of general portfolio provisions for country risks, see the notes to the consolidated financial statements). Departures from this rule must be justified on a case-by-case basis. A specific provision may still be created for countries with better ratings if called for by the particular circumstances. Provisions are created to take account of creditworthiness risks in off-balance sheet lending business.

Current risk situation

The counterparty risk determined on the basis of the credit value at risk (CVaR) with a confidence level of 99.9% and a holding period of one year, declined moderately in 2017 to €1,115m (2016: €1,156m). Risk capital allocated to counterparty risks was €2,015m (2016: €1,950m). Utilisation of this amount was 55.3% (previous year: 59.3%). The decline in the CVaR is due predominantly to lower migration risks and to the reduction of bond exposures in the Treasury corporate centre. Individual rating improvements for capital market counterparties also helped reduce risk, as did non-scheduled repayments, recoveries and the associated release of loan loss provisions in ship financing. Against this, risk in the Financing business division rose in the second half of the year, primarily as a result of new infrastructure and project loans. The modelling adjustments described above also had the effect of increasing risk.

The risk position of the cluster portfolio is assessed using a redistribution based on expected shortfall. This also resulted in a decline compared to the previous year, as both the number of borrower units classed within counterparty clusters and the associated gross loan volume again fell. This was principally the effect of reduced bond exposures in the Treasury corporate centre. Risk concentrations in the ten largest counterparty clusters rose slightly in numerical terms, but fell slightly as a proportion of the overall portfolio. Risk concentration thus remained in line with the Deka Group's credit risk strategy.

Gross loan volume increased by €12.5bn compared with the end of 2016 (€124.3bn), reaching €136.8bn. The rise predominantly concerned the financial institutions risk segment and was mainly attributable to higher deposits at the Deutsche Bundesbank and an increase in the volume of repo lending (particularly with central counterparties such as Eurex and LCH.Clearnet). At 31 December 2017, 53.0% of gross loan volume related to the financial institutions risk segment. The rise in gross loan volume in the property risk segment resulted from new secured property lending in Europe and North America and from transactions with open-ended property funds. Gross loan volume in the funds risk segment also rose, due to a larger portfolio of fund units. By contrast, lower demand for liquidity among savings banks led to a substantial drop in gross loan volume in the relevant risk segment. In the Public Sector International risk segment, the reduction of the bond portfolio also had a compensating effect, as did the reduction in municipal lending and time deposits in the Public Sector Germany segment. The ship portfolio's share of gross loan volume decreased to 0.9% (2016: 1.3%), due to non-scheduled repayments and sales among other factors. The market environment remains difficult, and the ship financing portfolio is therefore being closely followed and monitored on an ongoing basis.

Gross loan volume *€m (Fig. 21)*

	31 Dec 2017	31 Dec 2016
Financial institutions	72,527	57,629
Savings banks	7,177	10,511
Corporates	12,260	11,836
Public sector International	2,710	3,701
Public sector Germany	11,255	12,364
Transport & export finance	5,193	5,295
Property risks	8,771	7,371
Funds (transactions and units)	14,502	13,567
Other	2,420	2,062
Total	**136,817**	**124,336**

Net loan volume rose by €5.0bn to €54.9bn as at 31 December 2017, thus exhibiting a substantially smaller rise in absolute terms than gross volume. This was because the expansion of business volume led to an increase in deductions for secured lending when converting from gross to net loan volume. These were mainly due to the offsetting of reverse repo transactions, especially as a result of the increased volume of reverse repos in the financial institutions risk segment. The rise in the financial institutions risk segment, which was also visible in net loan volume, was thus due primarily to higher deposits with the Deutsche Bundesbank. The volume of lending to savings banks and the German public sector had a compensatory effect in net terms as well as in gross terms.

Loan volume in non-core business declined to a gross and net figure of €0.6bn (2016: €0.8bn), partly due to sales of bonds from the former public finance portfolio and of securitisations. This represents just 6% of the original volume of approximately €9.5bn in 2009. The remaining portfolios chiefly comprise structured securities from the former liquid credit portfolio and non-German public-sector bonds from the former public finance portfolio. The remaining portfolios were fully integrated into the Capital Markets business division as from the start of 2018.

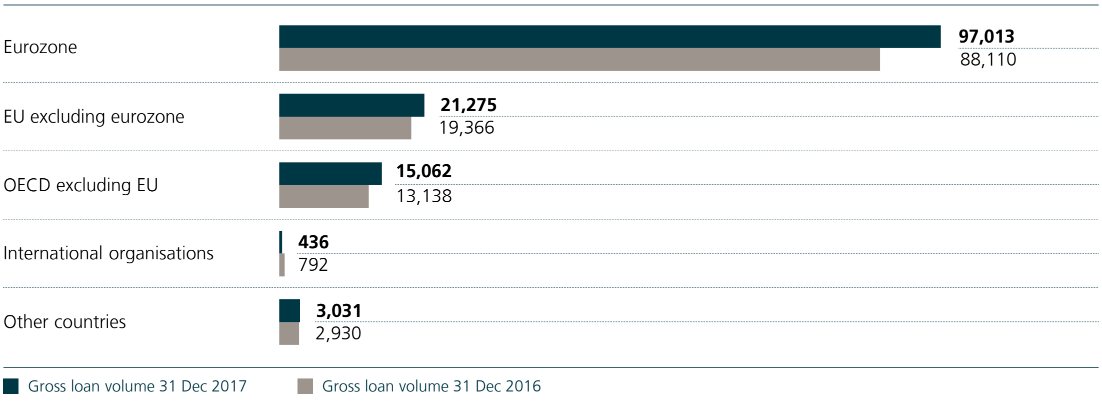
Net loan volume *€m (Fig. 22)*

	31 Dec 2017	31 Dec 2016
Financial institutions	24,637	16,270
Savings banks	6,722	9,894
Corporates	6,396	6,354
Public sector International	1,771	1,887
Public sector Germany	2,331	3,646
Transport & export finance	670	938
Property risks	1,695	1,277
Funds (transactions and units)	8,306	7,630
Other	2,400	2,036
Total	**54,928**	**49,931**

Due to the higher volume of repo lending and reverse repo activities with German, Belgian and Luxembourg counterparties as well as the increase in central bank deposits, the loan portfolio remains heavily concentrated on the eurozone, which accounted for 70.9% of the total (2016: 70.9%). This is in line with the business model. The gross loan volume in relation to Germany increased by €6.4bn to €60.9bn.

In EU countries outside the eurozone, gross loan volume was higher than at the end of 2016, primarily as a result of an increased volume of repo lending with British counterparties. In non-EU OECD countries, gross loan volume rose over the year, primarily as a result of bonds and secured property lending with US counterparties and a greater volume of securities lending transactions with counterparties in Switzerland.

Gross loan volume by region *€m (Fig. 23)*



The gross loan volume relating to borrowers in Italy, Spain and Ireland increased to €5.7bn, from €4.0bn at the end of 2016. This meant that 4.2% (2016: 3.3%) of overall gross loan volume concerned counterparties in those countries. The rise resulted predominantly from secured repo transactions with Spanish counterparties and increased holdings in Irish-based funds. The gross loan volume attributable to counterparties in Russia fell by €130m during the year to €217m. Around 91% of this total is secured by ECA guarantees issued by the Federal Republic of Germany.

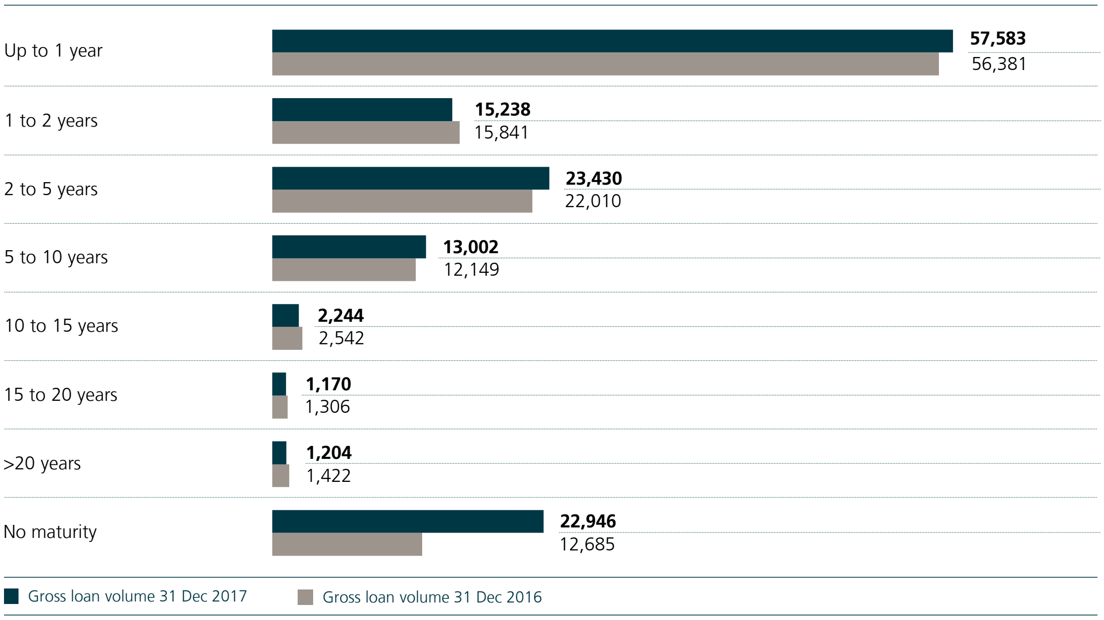
Exposures in the United Kingdom have been closely watched since the Brexit process was triggered. Gross loan volume relating to borrowers in the UK increased to €19.9bn, from €17.6bn at the end of 2016. The rise is due to repo lending transactions with counterparties in the British capital markets. For risk reasons, the single-counterparty limit for the UK government was reduced mid-year from €2.5bn to €2.2bn.

Gross loan volume by risk segment for selected countries as at 31 December 2017 *€m (Fig. 24)*

	Ireland	Spain	Italy	Great Britain	Russian Federation
Financial institutions	1	2,168	404	15,789	0
Corporates	16	409	110	1,715	0
Public sector International	41	276	241	84	0
Transport & export finance	408	14	217	143	217
Energy and utility infrastructure	0	55	0	0	0
Property risks	307	2	302	2,111	0
Funds (transactions and units)	668	0	0	60	0
Other	0	43	40	25	0
Comprehensive income	**1,441**	**2,966**	**1,314**	**19,927**	**217**
Change vs. previous year					
Financial institutions	1	790	–146	2,243	0
Corporates	15	25	14	103	0
Public sector International	21	–52	–12	–425	0
Transport & export finance	40	–5	117	42	–108
Energy and utility infrastructure	0	–3	0	0	–23
Property risks	176	2	50	368	0
Funds (transactions and units)	663	–2	0	35	0
Other	0	–1	–17	2	0
Comprehensive income	**916**	**754**	**6**	**2,367**	**–130**

As previously, gross loan volume was focused on the short-term segment. In 2017, the proportion of transactions with a residual maturity of less than one year fell moderately from 45.3% to 42.1%. The share of maturities of ten years or more was 3.4%, lower than at the end of 2016 (4.2%). The average legal residual term of the gross loan volume fell slightly, amounting to 2.7 years (2016: 2.8 years).

Gross loan volume by maturity *€m (Fig. 25)*



The level of risk concentration in the loan portfolio declined slightly during the year. At 31 December 2017, 18.4% of total gross loan volume (2016: 19.6%) was attributable to borrower units with a gross limit of at least €2.5bn or an overall net limit of at least €1.0bn (counterparty clusters). The number of counterparties classed as counterparty clusters also fell slightly. Of the cluster portfolio, 24.4% related to counterparties in the German public sector, savings banks and other alliance partners. Only 9.4% of net loan volume related to counterparty clusters (2016: 12.6%). This primarily reflects the higher proportion of collateralised transactions in counterparty clusters.

Furthermore, the shadow banking portfolio has been restricted since the start of 2017, in line with EBA rules. Shadow banking entities include, among others, money market funds, credit funds and inadequately regulated credit institutions. DekaBank distinguishes between shadow banking entities under the principal approach and those under the fallback approach. Therefore, while an overall limit is imposed on shadow banking entities, limits are also imposed depending on the approach used. The existing limits at the level of individual counterparties remain unaffected. As at 31 December 2017, less than 3% of net loan volume related to shadow banking entities under the principal approach (limit utilisation 91%) and less than 1% to shadow banking entities under the fallback approach (limit utilisation 79%). The utilisation figures are considered acceptable, especially given that the shadow banking entities have an average rating of A on the DSGV master scale.

The average ratings for gross loan volume and net loan volume both improved to a rating of 2 on the DSGV master scale, a rise of one notch relative to the end of 2016. The average probability of default was 12 bps for gross loan volume (2016: 16 bps) and 11 bps for net loan volume (2016: 17 bps). The Bank therefore continued to achieve its target rating of investment grade (5 or better) for the portfolio as a whole. The increase in volumes with well-rated counterparties such as the Deutsche Bundesbank and Eurex also had a positive effect on the average rating, as did rating improvements at central counterparties and some major international banks. In addition, the average probability of default also fell due to the reduction of volumes with capital market counterparties with medium credit ratings. 82.8% of net loan volume remained in the same grouping (determined by rating class) as at the end of 2016.

Net loan volume by risk segment and rating *€m (Fig. 26)*

	Average PD in bps	Average rating 31 Dec 2017	31 Dec 2017	Average PD in bps	Average rating 31 Dec 2016	31 Dec 2016
Financial institutions	7	A	24,637	20	3	16,270
Savings banks	1	AAA	6,722	1	AAA	9,894
Corporates	12	2	6,396	14	2	6,354
Public sector International	5	A+	1,771	5	A+	1,887
Public sector Germany	1	AAA	2,331	1	AAA	3,646
Public infrastructure	19	3	675	39	5	568
Transport & export finance	193	9	670	284	10	938
Energy and utility infrastructure	59	6	1,606	71	6	1,327
Property risks	10	A-	1,695	18	3	1,277
Retail portfolio	3	AA	119	5	A+	141
Funds (transactions and units)	14	2	8,306	14	2	7,630
Comprehensive income	**11**	**2**	**54,928**	**17**	**3**	**49,931**

Market price risk

Strategic framework and responsibilities

The Deka Group's market price risk strategy, based on the Group's overall risk strategy, stipulates parameters for risk management in all organisational units regarding all positions in the trading and banking book that are exposed to market price risk. It sets objectives, priorities and responsibilities for market price risk management and, together with the liquidity risk strategy, governs the business focus of trading activities (trading strategy).

Within the risk management organisation, the Board of Management decides the market price risk limits for the Group as a whole, as well as at the level of the business divisions, including the Treasury corporate centre and non-core business. The relevant department heads are responsible, in consultation with the head of Risk Control, for reallocating existing limits below the level of the Capital Markets business division and Treasury where appropriate. The allocation of limits reflects both organisational structure and the distinction between the trading and the banking book.

The MKR and MKAP make recommendations with respect to the definition of the framework for the management of strategic market-price risk positions to the Board of Management, which then adopts resolutions accordingly. In its capacity as a sub-committee, Risk Talk supports the MKR and the Board of Management in relation to the Capital Markets business division's operational processes for managing and monitoring market price risk. To do so, it conducts in-depth analysis on a range of issues relating to market and counterparty risks and makes recommendations and binding decisions on matters that influence the Capital Markets business division's risk profile. These committees make an important contribution to communication between the departments responsible for the control and monitoring of market price risks.

Execution of transactions and recording exposures are the responsibility of the operating units. In terms of market price risks, they are solely responsible for the implementation of strategic guidelines and operational management within the prescribed risk limits.

Market price risks also need to be considered in the Capital Markets business division, the Treasury corporate centre and the Asset Management Services business division (S Broker). Market price risks in the other operating units in the Financing business division are passed on to the Treasury corporate centre.

The Deka Group's investment management companies are generally not subject to any market price risks beyond those associated with the investment funds. However, market price risks can arise for the Deka Group if products are provided with a guarantee. Market price risks from guarantee products are incorporated into the analysis of risk-bearing capacity and attributed to the Asset Management Securities business division.

Focus, structure and degree of risk associated with business activities

With respect to market price risk, the Deka Group's business model focuses primarily on conducting business in interest and equities-related products. For this purpose, the Group mainly uses established products and markets with adequate market liquidity and market depth due to their international acceptance. No business is conducted involving physical delivery of precious metals and goods. Open risk positions are entered into only within the allocated market price risk limits.

In its function as a securities and collateral platform, the Capital Markets business division enters into open positions, in the context of customer business, in a predefined amount exclusively in particularly liquid securities with high credit ratings. Proprietary trading not directly linked to customers takes place only for the purposes of managing risks from the customer business or for overall risk management purposes. The primary risks that result from these activities are credit spread risks, as well as interest rate, equity, option and currency risks. Whenever economically justified, risks are covered using hedging instruments. The rules for recognising hedging relationships in the balance sheet do not always correspond with the methods used for internal bank management purposes. It is therefore possible that differences may arise between the economic and accounting hedging relationships.

In repo and securities lending business there is a direct link with DekaBank's securities portfolios. Customer transactions have a significant influence on the Bank's liquidity base, which is managed centrally by Treasury. Collateralised financing is also conducted as part of customer business. Due to its business model, DekaBank has a surplus supply of securities and collateral that can be invested in customer business to minimise risk. Traditional repo and reverse repo transactions as well as synthetic financing/lending substitute transactions are carried out to this end.

In bond trading, positions are established in the bonds of public issuers, financial service providers and corporations, among others. The focus here is on market-making for customers. Therefore, long-term positions are generally not entered into.

Positions are established for structuring purposes in both securities and derivatives – especially options – in equities and interest rates. The resulting interest-rate-option and equity-option risks as well as the general position risks are hedged using derivatives. When economically justified, the equity and interest rate risks arising from primary and secondary market positions for structured products are hedged.

Strategic investments predominantly comprise positions for which the refinancing volume has resulted from DekaBank's customer-driven business and is not needed for lending operations. The key risks in this regard are interest rate and credit spread risks.

Management of the liquidity reserve is centralised in the Treasury corporate centre. The investment focus of liquidity investments is currently on bonds issued by German federal states, German development banks, German run-off institutions, German Pfandbriefe, supranational institutions and investment-grade corporate bonds. These investments primarily give rise to credit spread risks, which are closely monitored and reduced, when needed, through disposals or via credit derivatives. Monitoring fund products provided with guarantees and managing market risk in the banking book involves further market price risks. In the latter case, risk management relates primarily to interest rate, basis and currency risks, with exchange-traded derivatives sometimes also being used.

Interest rate and currency risks that result from liquidity management in Treasury are managed using derivative instruments, whereas the market price risks arising from refinancing and equity-capital management are hedged using internal transactions where possible as well as using external and internal derivatives.

Management and limit-setting

Market price risk is monitored on a daily basis. The basis for this monitoring is a system of operational limits that is consistent with the Group's overall risk-bearing capacity. This system defines limits in line with the business model for the various portfolio levels and risk categories. In addition, limits are set based on operating metrics such as sensitivities. Risk Control reports key market price risk ratios and limit utilisation to the units responsible for management on a daily basis. Clear escalation processes are defined in case of any limit breaches. Key risk ratios at business division level are also provided daily to the Board of Management. Stop-loss limits are another management tool that the Group has established to limit losses. In the event that a stop-loss is exceeded, the MKR will immediately take steps towards mitigation.

Value-at-Risk (VaR)

VaR is calculated with a confidence level of 99.9% and a holding period of one year when analysing risk-bearing capacity; when determining the utilisation of operating limits DekaBank calculates VaR for a holding period of ten days and a confidence level of 99.0%.

The operating VaR therefore corresponds to the maximum loss on a position held over a period of ten trading days, with a probability of 99.0%.

VaR key ratios are determined on a daily basis for all relevant risk categories and portfolios and are compared with the associated portfolio-specific limits.

To determine VaR, a sensitivity-based Monte Carlo simulation is used across all portfolios. This simulation ensures that all market price risks are identified in an integrated manner. The foundation for the calculation is volatilities and correlations that have been determined based on historical changes in market parameters. Market correlations within the risk categories of interest rates and credit spreads, and currencies and equities are taken into account, as are the correlations between the risk categories.

Sensitivity-based management metrics

The input parameters for this risk model are the sensitivity metrics delta, gamma and vega. These first and second ranking sensitivities express the price sensitivity of financial instruments to changes in underlying risk factors and are used to determine overall risk. They are also available as additional management metrics for risk assessment purposes.

Sensitivity analyses are defined as simple shifts in the different risk factors for interest rate, credit spread, share price and exchange rate movements. The sensitivity analyses are used to support the operational management of the risks from trading and treasury positions.

To calculate share price risk, each share is included as an individual risk factor and considered accordingly when determining risk. The specific interest rate risks (credit spread risks) are calculated on an integrated basis using the sensitivities of the underlying segment-specific or name-specific credit spread curves. There are also residual risks relating to individual issues.

The model ensures that all risk factors associated with the trading strategy are identified, including non-linear risks and credit spread risks. Daily risk measurement is performed for all types of market price risk, both in the trading book and the banking book. This guarantees a comprehensive view of all market price risks, while adequately taking into account concentration and diversification effects by including correlations across all portfolios and risk types.

Market price risks that result from granting guarantees are measured using an approach specifically developed for this purpose and geared towards risk-bearing capacity, which does not take into account diversification effects with regard to other market price risks.

Scenario considerations and stress analyses

The limit system is supplemented with regular market price risk-specific stress tests. Using these tests, the sensitivity of the portfolio is constantly tested with regard to a wide variety of trends in the various risk factors. Once again, the focus is on risks that are particularly relevant, using separate, portfolio-specific analyses. In addition, the value-at-risk metric is complemented by stressed value-at-risk, which evaluates the risk potential in a period of financial stress.

Market price risks are also an important component in the analysis of significant macroeconomic scenarios. The effects of this analysis, which covers all risk types, are investigated on a quarterly basis and serve as an early warning mechanism for the Bank regarding its risk-bearing capacity.

The main components of the portfolio are also addressed as part of this analysis by performing a detailed review of credit spread trends, particularly in the financial sector and among domestic public issuers.

Backtesting of VaR risk ratios and validation

Various steps are taken to test the quality of the VaR forecast, including regular backtesting for various portfolio levels. In this process, the daily results that are theoretically achieved assuming unchanged positions on the basis of the market developments observed on the following day are compared with the forecast value-at-risk figures for the previous day. In addition, dirty backtesting regarding the actual change in value is also carried out, taking trading activities into account. The backtesting findings are also used to enhance the risk model. The results are reported on a quarterly basis. Overall, the backtesting results confirm the suitability of the market price risk measurement at both the bank level and at the level of subordinate organisational units. In addition, the approximation error of the delta-gamma approximation is reviewed on a monthly basis by carrying out a full valuation of the portfolio.

Risk models are validated on both a regular and ad hoc basis, and the results play an important role in assessing whether the models are adequate. Accordingly, any requirements for further development that arise from the validation procedure are then integrated into the process for identifying and quantifying risks. Overall, the validation exercises carried out confirm that the market risk model is appropriate.

Current risk situation

Market price risk at Deka Group level (measured using value-at-risk with a confidence level of 99.9% and a holding period of one year) increased significantly compared with the position as at the end of 2016 (€258m) to €382m. Risk capital allocated to market price risk stood at €865m (2016: €750m). Utilisation was 44.1% and should therefore be regarded as moderate, as in the previous year.

The rise in VaR is essentially due to an increase in exposure in the Strategic Investments unit of the Capital Markets business division. Although the expansion of the bond portfolio was made in the investment-grade segment, there is nevertheless an associated rise in spread risk. The inclusion of the general interest rate risk for guarantee products in the Asset Management Securities business division also caused the risk level to rise. The increase in risk was mitigated by the steepening yield curve and higher fund prices in securities-related asset management, along with a market-driven fall in risk for guarantee products. The degree of market risk posed by the other divisions and by Treasury moved only slightly relative to the previous year-end.

At the end of 2017, market price risk for the Deka Group excluding guarantee risks (measured by value-at-risk with a confidence level of 99.0% and a holding period of ten days) totalled €43.8m (2016: €29.5m). Utilisation of the operating management limit for Treasury and capital markets business, which fell by €5m to €62m, increased to 69.3% (2016: 42.3%) and therefore remained at a non-critical level.

Deka Group value-at-risk excluding guarantee risks [1] (confidence level 99%, holding period ten days)
€m (Fig. 27)

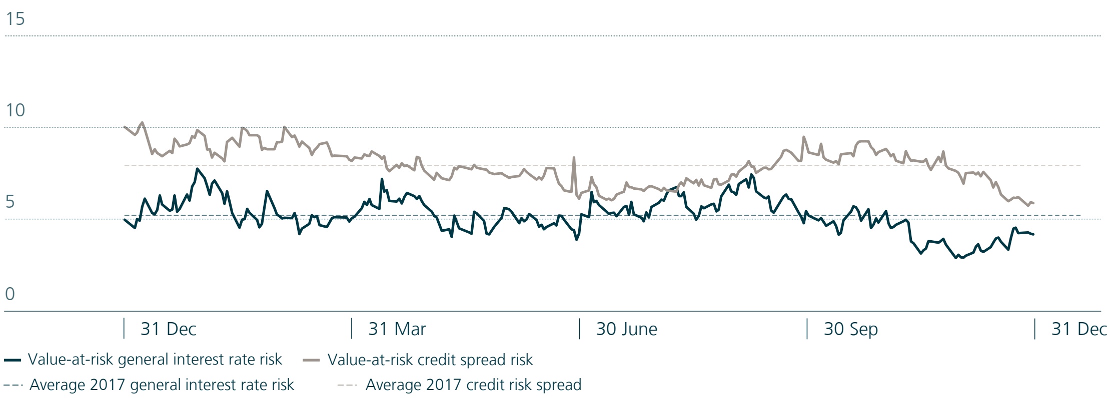
Category	31 Dec 2017: Treasury and Capital Markets business division	31 Dec 2017: Asset Management Services business division	31 Dec 2017: Non-core business	31 Dec 2017: Deka Group excluding guarantees	31 Dec 2016: Treasury and Capital Markets business division	31 Dec 2016: Asset Management Services business division	31 Dec 2016: Non-core business	31 Dec 2016: Deka Group excluding guarantees	Change in risk
Interest rate risk	39.1	2.6	4.0	40.0	28.1	2.3	5.1	29.2	37.0%
Interest rate – general	7.8	2.6	1.3	8.7	13.7	2.6	1.5	14.8	–41.2%
Spread	38.1	1.6	3.7	39.7	29.1	1.2	4.7	30.7	29.3%
Share price risk	3.7	0.3	0.0	3.5	3.3	2.1	0.0	3.2	9.4%
Currency risk	8.8	0.2	0.5	8.4	4.2	0.1	1.1	3.7	127.0%
Total risk	**43.0**	**2.5**	**3.9**	**43.8**	**28.4**	**3.4**	**5.1**	**29.5**	48.5%

1) Risk ratios for interest rate risk and total risk taking account of diversification. Includes issue-specific credit risk spread.

In the period under review, the VaR of spread risk increased to €39.7m (2016: €30.7m). The predominant reason was the increase in exposures in the Strategic Investments unit in the capital markets business. In line with the business model, risk concentration in terms of spread risk thus fell mainly on bonds from German and US issuers and on the public sector, financial institutions and corporates segments. Spread exposures existed mainly in the Strategic Investments unit in Capital Markets and in liquidity reserve management within the Treasury corporate centre.

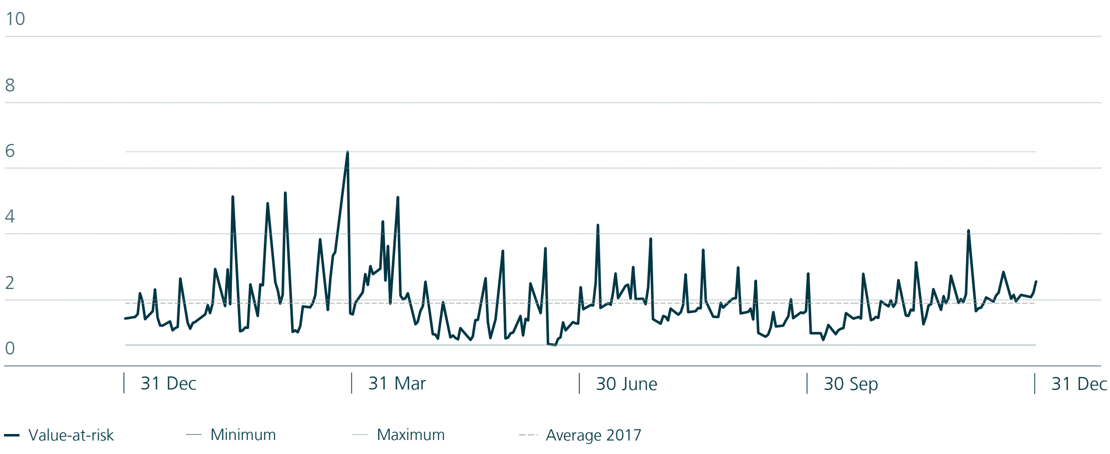
The VaR for general interest rate risk (excluding risks on guarantee products) decreased from €14.8m at year-end 2016 to €8.7m. This drop mainly resulted from a change in positioning as regards the maturity profile.

Value-at-risk – General interest rate risk and credit spread risk in the Capital Markets trading book over the course of 2017 *€m (Fig. 28)*



Share price risk rose compared with the year-end figure for 2016 (€3.2m) to €3.5m. It thus remained insignificant. Share price risk in the Capital Markets business division trading book totalled €2.6m (2016: €1.5m).

Value-at-risk – Share price risk in the Capital Markets trading book over the course of 2017 *€m (Fig. 29)*



As in the previous year, currency risk resulted mostly from positions in British pounds and US dollars. It increased to a VaR of €8.4m (2016: €3.7m). The rise was attributable to new foreign-currency lending in British pounds and US dollars. Currency risk in the Capital Markets business division trading book remained unchanged at €0.6m (2016: €0.6m).

Value-at-risk – Currency risk in the Capital Markets trading book over the course of 2017 *€m (Fig. 30)*

Liquidity risk

Strategic framework and responsibilities

Liquidity risk is managed and monitored as an independent risk category within the framework of the Deka Group's risk strategy. The liquidity risk strategy applies to all organisational units of the Deka Group. The strategy is specified by the Board of Management, reviewed at least once a year and discussed with the Administrative Board.

As liquidity risk is not an immediate risk to the Group's profit that can be cushioned with equity capital, it is managed outside the risk-bearing capacity analysis. The central objective of liquidity management is to prevent liquidity shortfalls and thus ensure that the overall solvency of the Deka Group is guaranteed on a continuous basis. Risks impacting the income statement arising from refinancing gaps (liquidity maturity transformation risk) are currently not material because the limits placed on liquidity balances in the funding matrix (FM) prohibit negative balances. In view of the ample levels of liquidity available to the Group overall, market liquidity risk is also not regarded as significant at present.

Within the risk management organisation, the Board of Management defines the Group's liquidity risk strategy, liquidity risk limits and early warning thresholds at Group level.

The Board of Management is supported by the MKR and MKAP when fulfilling its management responsibilities regarding liquidity risk monitoring. The two committees prepare decisions and make recommendations that are presented to the Board of Management for adoption at the next Board meeting. The Liquidity Emergency Crisis Committee is convened in the event of a liquidity emergency. It may decide all measures judged necessary to ensure the short-term solvency of the Group and may instruct all units of the Deka Group to implement these measures. The Board of Management, as a permanent member with a voting right, is the core of this crisis committee.

Liquidity positions are managed centrally by the Treasury unit. Asset-liability management involves managing and monitoring structural liquidity through funding matrices and managing the use of liquidity transfer pricing (transfer pricing for funds). At the same time, the Treasury unit ensures that an adequate liquidity reserve of central-bank-eligible collateral is available. In addition, it is in charge of managing the Deka Group's liquidity reserve as well as controlling the level of liquidity ratios. Operational liquidity management across all maturities is handled centrally by the Treasury corporate centre. This includes money market transactions on the interbank market with savings banks, the Bundesbank or the ECB, businesses, insurance companies and funds.

The liquidity position is analysed across the entire Group by the Risk Control corporate centre and monitored independently from the front office units in organisational and procedural terms.

Management and limit-setting

Funding matrices

The purpose of the funding matrix is to show expected future cash flows across the portfolio as at the reporting date. The liquidity requirement (liquidity gap) or liquidity surplus is determined for each maturity based on these flows. In addition, freely available financial resources, such as realisable assets in the form of securities, over-coverage in cover registers and other sources of funding, are identified as potential liquidity on an aggregated basis. The liquidity balance for each maturity band is determined from the sum of the cumulative liquidity gap and the cumulative liquidity potential. The balance is managed using a traffic light system comprised of early warning thresholds and limits. The liquidity balance must be positive in all monitored maturities.

The basis for the model is cash flows as indicated by legal maturities. This approach is based on the sum of all legal net cash flows per maturity band. Reconciliation between the amount from a legal perspective and expected cash flows is performed using modelling assumptions. Securities used for liquidity potential are allocated either to the liquidity buffer or to operational securities portfolios.

The liquidity buffer is used to cover possible stress-induced liquidity outflows from the banking book as well as stochastic liquidity outflows that cannot be influenced by the Deka Group or can only be influenced to a limited extent (stochastic liquidity position). As a component of the liquidity reserve, the liquidity buffer falls under the remit of the Treasury corporate centre. The minimum level required and currency composition of the liquidity buffer are determined by Risk Control on a quarterly basis. Treasury can independently propose a higher liquidity buffer above this level. The results are reported to the MKR. The Board of Management sets the level of the liquidity buffer based on the MKR's recommendation.

The operational securities portfolios comprise all freely available securities. These can be divided into securities that fall within the remit of the Capital Markets business division and portfolios that are allocated to the Treasury corporate centre as part of the liquidity reserve and which do not form part of the liquidity buffer.

As well as being used for normal business operations (going concern), funding matrices are also analysed under different stress scenarios. This ensures that even under stressed market conditions, an adequate liquidity reserve is maintained to cover any potential liquidity need.

The Deka Group primarily examines the "combined stress scenario" FM, which simulates the simultaneous occurrence of both the institution's own and market-wide stress factors. This FM fully implements MaRisk requirements. In addition, individual stress scenarios are examined separately in special FMs for which different modelling assumptions are used. Among other factors, market liquidity risks arising from a reduction in the market value of the securities in the liquidity potential are taken into account in the stress scenarios.

Liquidity ratios under the Capital Requirements Directive (CRR/CRD IV) and German Liquidity Regulation

Liquidity risk is also kept under control by means of the Liquidity Coverage Ratio (LCR), which is a prescribed regulatory ratio. The LCR indicates the ratio of highly liquidity assets to net liquidity flows under stressed conditions.

The use of a funds transfer pricing system for the source-specific allocation of liquidity and collateral costs also allows liquidity to be proactively managed and efficiently allocated.

As the Deka Group is a CRR credit institution, full introduction of the LCR means that the German Liquidity Regulation ceased to apply to the Group as of 1 January 2018. The liquidity ratio prescribed under the Regulation (pursuant to section 11 of the German Banking Act) was therefore determined for the final time as at 31 December 2017.

Reporting

The aforementioned FMs used for management and risk monitoring purposes are prepared daily by Risk Control as part of its independent monitoring process. The corresponding early warning thresholds and limits for the liquidity balance are also monitored. The liquidity situation is reported to the MKR on a monthly basis. The Administrative Board is informed on a quarterly basis. Any overruns of the limits are reported immediately to the Board of Management. Moreover, the liquidity ratios according to the Liquidity Regulation and the LCR are prepared daily in the reporting system of the Finance corporate centre and provided to monitoring units.

Current risk situation

The Deka Group continued to have ample liquidity throughout the reporting period. There were clear positive liquidity balances in all relevant maturity bands of the "combined stress scenario" funding matrix for periods of up to 20 years. This was also the case for the alternative stress scenarios. Limits and early warning thresholds were complied with throughout the reporting period. Adjusting the modelling of deposits to move from relative prolongation rates to absolute floors led to a reduction in liquidity balances in maturity bands of two weeks and upwards.

As at 31 December 2017, the accumulated liquidity balance of the Deka Group's "combined stress scenario" funding matrix in the short-term range (up to one week) stood at €6.4bn (2016: €4.6bn). In the maturity band of up to one month, the liquidity surplus totalled €7.0bn (2016: €11.2bn), and in the medium-term range (three months) it was €12.6bn (2016: €18.2bn).

As in previous years, a substantial part of the Group's liquidity generation and provision was attributable to business with savings banks and funds. The Deka Group has a high liquidity potential that is readily convertible at short notice. The Group has access to a large portfolio of liquid securities, most of which are eligible as collateral for central bank borrowings, as well as to available surplus cover in the cover pool and corresponding repo transactions.

"Combined stress scenario" funding matrix of Deka Group as at 31 December 2017 *€m (Fig. 31)*

	D1	>D1-1M	>1M–12M	>12M–5Y	>5Y–20Y	>20Y
Liquidity potential (accumulated)	12,823	17,848	3,070	–188	29	56
Net cash flows from derivatives (accumulated)1)	–178	–56	1,170	–252	–1,132	–1,141
Net cash flows from other products (accumulated)	–8,662	–10,777	8,977	6,400	4,583	873
Liquidity balance (accumulated)	**3,983**	**7,015**	**13,216**	**5,960**	**3,481**	**–212**
For information purposes:						
Net cash flows from derivatives by legal maturity (accumulated) [1]	–178	–438	–838	–2,612	–3,269	–1,141
Net cash flows from other products by legal maturity (accumulated)	–7,999	–15,258	–20,444	–1,804	–47	73
Net cash flows by legal maturity (accumulated)	**–8,177**	**–15,695**	**–21,283**	**–4,416**	**–3,315**	**–1,068**

1) Including lending substitute transactions and issued CLNs

As at 31 December 2017, 60.6% (2016: 56.2%) of total refinancing related to repo transactions, overnight and time deposits and other money market products. The remainder of the refinancing related to capital market products, primarily with longer maturity profiles, with bearer bonds making up by far the largest proportion. The refinancing profile for lending business was well balanced in terms of maturity structure.

Money market refinancing was broadly diversified across a range of investor groups. Most of the investors in money market refinancing are financial service providers such as clearing houses, stock exchanges and funds, or large banks and savings banks. Savings banks accounted for 16.3% of money market refinancing, while funds represented 25.6%.

Some 59.8% of total refinancing was obtained in Germany and other eurozone countries. Another 10.3% was attributable to the United Kingdom. This relatively large proportion is essentially due to the high volume of secured repos with LCH.Clearnet.

The regulatory requirements in relation to the Liquidity Coverage Ratio (LCR) were met throughout the period under review. The Group-level LCR stood at 152.5% as at 31 December 2017. The average figure for the year was 132.0% (previous year: 114.4%). During the year, the LCR ranged from 114.2% to 154.8%. The LCR was thus substantially above the minimum limit of 80.0% applicable in 2017.

A minimum LCR of 100% applies from 2018 onwards. As the Deka Group is subject to the rules under articles 411 to 428 of the CRR, full introduction of the LCR means that the German Liquidity Regulation ceased to apply to the Group as of 1 January 2018. The liquidity ratio calculated under the German Liquidity Regulation stood at 1.9 on 31 December 2017 (2016: 1.7). This is the last time this ratio will be calculated.

Operational risk

Strategic framework and responsibilities

The strategy laid down by the Deka Group to deal with operational risks (OR strategy) forms the basis for organisation of operational risk management. It defines the framework for the Group-wide establishment and operation of a standard system for identifying, assessing, monitoring and managing operational risks. The OR strategy applies to all organisational units of the Deka Group.

Roles and responsibilities

Due to the process-specific nature of operational risks (OR), the Deka Group pursues a decentralised approach to identifying, measuring and managing them. This approach is based on coordinated collaboration between the units set out below.

The Board of Management has overall responsibility for the appropriate handling of operational risks in the Deka Group. In this respect, it is specifically responsible for defining and regularly reviewing the OR strategy, ensuring that required conditions for Group-wide implementation of the strategy are in place and adopting measures for OR management at Group level.

The Risk Modelling unit is responsible for the key components of OR control in the Deka Group. It is primarily responsible for selecting the methodology applied to OR management, for independent OR reporting and for specialist support of the infrastructure required to fulfil these responsibilities.

Risks are identified, measured and managed on a decentralised basis by various functions within the individual Group units. While the division heads are responsible for implementing the requirements specified in the OR strategy and the actual management of operational risks, OR managers are responsible for decentralised application of the methods developed, particularly with regard to ensuring consistent risk assessments. The OR managers are supported by assessors, who, as process experts, identify and evaluate OR loss scenarios as part of a self-assessment process, and by loss documenters.

Cross-divisional functions

In addition to the methods for which the central OR Control unit is responsible at the Deka Group, several specialised cross-divisional functions play an important role in identifying, assessing and managing operational risks.

In performing its duties, the Internal Audit corporate centre also uses information from the OR Control unit, such as risk scenarios and loss events, as supporting information for audit planning and preparation. In return, Internal Audit involves OR Control in its audit findings related to operational risk or loss events.

In the annual Fraud Prevention Forum, the Compliance corporate centre and OR Control collaborate closely – together with representatives of the business divisions and other corporate centres – to identify and assess scenarios regarding other criminal offences (such as employee fraud). OR Control, in its role as the Forum's sponsor, provides the Forum with information on loss events and identified fraud scenarios, and incorporates the assessments developed at the Forum into the OR records as scenario analyses.

The Data Protection Officer works towards ensuring compliance with laws and regulations regarding data protection in the Deka Group. This is done in particular by monitoring the proper use of data processing software used to process personal data. In addition, the Officer develops suitable measures to ensure that employees who process personal data are familiar with the provisions and special requirements of data protection.

The IT Security & Business Continuity Management unit provides support in the implementation of IT security requirements and is responsible for defining and implementing Business Continuity Management (BCM) across the Deka Group. BCM encompasses all emergency planning measures to protect the Deka Group against losses as a result of business process interruptions during emergencies and crises, and thus also serves to minimise operational risks.

Methods used

The Deka Group uses different methods for managing and controlling operational risks. Taken together, these methods, which are based on different approaches, provide a comprehensive view of both the current risk situation and expected risk trends.

The methods involve both a forward-looking (ex-ante) perspective, including self-assessment and scenario analysis, as well as a backward-looking (ex-post) perspective based on Group-wide loss documentation.

The self-assessment is based on detailed OR loss scenarios and is performed at least once a year. As well as describing and assessing risks with regard to their loss potential and the frequency with which they occur, the self-assessment process also identifies suitable measures to mitigate risk.

The scenario analysis serves as a detailed investigation and assessment of very rare OR loss events involving extremely large potential losses, which, due to their cross-unit nature and potentially high maximum loss potential, cannot be adequately identified via the self-assessment process. As part of this process, regularly updated risk factors related to both the Group's internal controls and its business environment are incorporated into the assessment of scenarios. These factors therefore increase the sensitivity of the scenarios to risk and help the Group to identify developments and determine management actions in a timely manner.

OR loss events are recorded in a structured manner with the help of a central loss database starting from a minimum gross limit of €5,000 at the Deka Group level. As well as providing a description of the loss, the database includes documentation that covers the causes of the loss and suitable measures to avoid similar cases in the future. Any expected mitigation of losses is only taken into account where the loss reduction is permissible under accounting rules. The findings of the loss documentation are used to validate the risk assessment contained in the self-assessments.

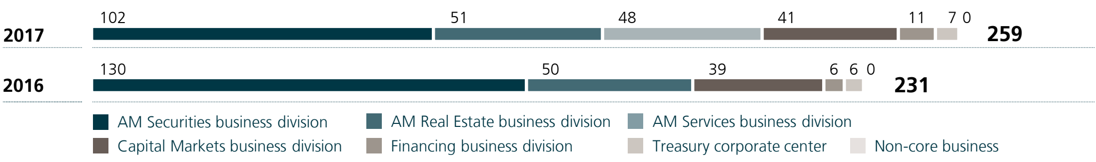
To determine the economic capital requirement for operational risks, the Deka Group uses an advanced measurement approach (AMA) that has been approved by regulatory authorities. This approach quantifies the Bank's operational risk based on a loss distribution approach, using methods set out in the approach itself and external loss data to supplement the data on internal losses. The value-at-risk figures thus identified are incorporated into both the regulatory capital and reserves requirement and the internal risk-bearing capacity analysis of the Deka Group.

Current risk situation

The VaR for operational risk (confidence level of 99.9%, holding period of one year) increased from €231m at year-end 2016 to €259m. The risk capital of €320m allocated to operational risks (2016: €310m) was thus 81.0% utilised. This utilisation level should be regarded as non-critical, in view among other things of the expected stable development over the long term.

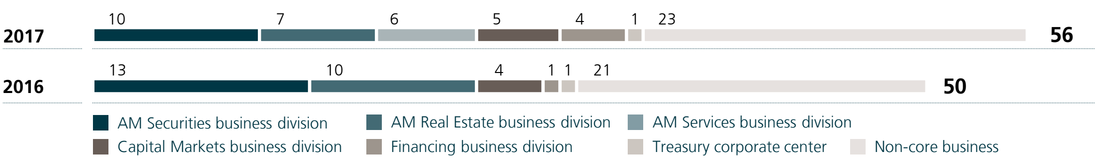
The rise in operational risk was principally due to the revised assessment of a scenario analysis covering the retroactive amendment of taxation terms. Whilst this resulted in a rise in ex-ante risk assessments, the comparatively small number and amount of actual incurred losses led to a slight drop in the ex-post result. By contrast, the observable shifts in the distribution of VaR between the business divisions, the Treasury corporate centre and non-core business, which are significant for internal management purposes, are essentially due to the change in divisional structure that was implemented at the start of the year.

Value-at-Risk *€m (Fig. 32)*



The OR loss potential identified in the Group-wide risk inventory recorded a moderate increase to €56m (2016: €50m), thus continuing the previous year's trend towards an increased risk assessment in the divisions. In addition to the risk of legal changes referred to above, significant contributors to this development were higher estimates of the probability of occurrence for processing errors and regulations providing for tougher fines in various areas. In contrast to VaR, which is an upper limit for losses with a specific probability that the limit will not be exceeded, loss potential is an expected value that results from the estimated frequency of occurrence and scale of losses of all OR scenarios in the Deka Group. The distribution of loss potential also reflects the reorganisation of the business divisions, in the form of a shift from Asset Management Securities to the new Asset Management Services business division and from Asset Management Real Estate to the Financing business division.

Loss potential *€m (Fig. 33)*



Based on the Federal Ministry of Finance (BMF) circular on the tax treatment of cum/cum transactions of 17 July 2017, tax risks exist in connection with relief from withholding tax (*Kapitalertragsteuer*) on share transactions made around the dividend record date in the years 2013 to 2015. All matters are reported in the 2017 consolidated financial statements in accordance with DekaBank's interpretation of the relevant tax regulations and accounting standards.

In addition, DekaBank has begun a voluntary investigation to ascertain whether its involvement enabled third parties to conduct share trades around the dividend record date and make use of abusive tax structures or whether it was otherwise involved in such structures. Investigations into this matter have not yet been fully concluded. Based on the results available to date, DekaBank considers it unlikely that the tax authority will be able to make a successful claim in relation to these matters.

Compliance

The Deka Group's Compliance corporate centre reports directly to the Board of Management and is designed so as to ensure that the Compliance function is durable, effective and independent. The Compliance department also carries out the compliance functions and the role of Money Laundering Officer for a number of regulated subsidiaries in Germany, under service level agreements. Compliance duties for Luxembourg-based companies are performed by the local Compliance unit in Luxembourg. The Responsible Officer position is held by the head of the Compliance corporate centre for relevant units in Germany and Luxembourg. The international offices in Japan and New York have local Compliance Officers who have a reporting line to the Compliance corporate centre.

The Compliance corporate centre is responsible for monitoring compliance with regulatory requirements arising under capital markets and investment law pursuant to the German Securities Trading Act (*Wertpapierhandelsgesetz* – WpHG), the German Investment Code (*Kapitalanlagegesetzbuch* – KAGB) and relevant European rules. The corporate centre works to ensure that compliance requirements and regulations relating to capital market and real estate activities are adhered to.

In addition, the Compliance corporate centre fulfils requirements under the German Money Laundering Act (*Geldwäschegesetz* – GwG) and German Banking Act (*Kreditwesengesetz* – KWG), including ensuring that there are internal safeguards to prevent money laundering, terrorist financing and other criminal actions in accordance with section 25h (1) KWG by providing a central office within the Bank. The corporate centre is also responsible for monitoring compliance with financial sanctions and embargoes at national and international level.

In addition, the requirements of MaRisk (AT 4.4.2) are fulfilled by a compliance function which is responsible for identifying and limiting compliance risks, and advising the Board of Management and the specialist units, particularly in connection with the implementation of effective processes and procedures to ensure adherence to significant legal regulations and requirements related to compliance.

In carrying out its duties, the Compliance unit advises and trains the specialist units on an ongoing basis. It also carries out risk-based reviews regarding adherence to statutory and regulatory requirements related to compliance and to the overall compliance guidelines.

The Compliance unit performs a risk analysis and assesses the procedures and controls established by the business units to determine whether they are appropriate and effective.

The Compliance Officer provides a written report on the activities of the organisational unit to the Board of Management on a regular basis, in accordance with legal requirements (at least once a year), and is also the point of contact for supervisory authorities and other governmental agencies. In addition, the chairman of the supervisory board has the right to demand the immediate provision of information from the Compliance Officer, with the involvement of senior management.

The ongoing implementation and integration of compliance requirements in day-to-day business is intended to contribute to the transparent adherence to compliance standards as well as to help reinforce trust among investors and the public and safeguard customer interests. The compliance regulations also protect employees; they help to maintain the Deka Group's good reputation in the market and ensure that conflicts of interest are managed effectively.

Accounting-related internal control and risk management system

The Board of Management of the Deka Group has overall responsibility for the internal control and risk management system. The system is based on a Group-wide organisational and control structure. The Finance corporate centre is responsible for preparing and coordinating monthly, quarterly and annual financial statements. The units involved in the accounting process are appropriately staffed, in terms of both the number of personnel and their qualifications. Furthermore, a regular and cross-divisional exchange of information between the units makes an important contribution to minimising the risks associated with the preparation of financial statements.

In principle, risks exist in the accounting process as a result, for example, of inconsistent application of reporting and accounting standards, incorrect recognition of business transactions, and due to malfunctions and errors in the IT systems used for accounting purposes.

The Deka Group's internal control system ensures proper accounting in accordance with applicable statutory and legal provisions. Its key features are the rigorous integration of control activities and procedures into processes, in particular by applying the dual control principle as well as risk-oriented segregation of duties in corporate centres. To this end, the Bank performs automated routine checks and, when required, manual control and reconciliation procedures. The implementation of these activities and the procedures to be followed are documented in specialist and implementation plans.

Additional checks – for example in order to substantiate balance sheet items – are carried out at an aggregated level by "sub-position managers". These employees, who have in-depth product knowledge, are also responsible for regularly calculating results. The dual control principle applies here as well and is carried out by an employee with supervisory responsibilities.

The accounting recognition of business transactions is governed centrally by a Group accounting policy. This policy describes key accounting requirements and documents the standard accounting processes that apply throughout the Group. This ensures, amongst other things, that the same business transaction is accounted for uniformly in different Deka Group units and companies in compliance with the applicable accounting standards. Specific work instructions are used to implement Group policy at operational level in individual specialist departments. These instructions also describe the control mechanisms to be followed. Guidelines and authorisation procedures have been developed for the central systems that generate accounting information as part of the preparation of financial statements. Compliance with these guidelines and concepts is regularly monitored by Internal Audit.

The Deka Group mainly uses standard software for accounting. The systems are safeguarded against unauthorised access by external parties and are comprehensively backed-up to protect against data loss. The internal control system is regularly reviewed by Internal Audit.

Business risk

The business risk strategy set by the Board of Management serves throughout the Group as the basis for monitoring and managing business risks and incorporating them into the Group's risk-bearing capacity analysis. A variety of complementary instruments are employed to identify, assess and manage business risks.

Further improvements were made during the year to the model used to quantify business risk in the course of risk-bearing capacity analysis. Key risk factors for the funds business are the planned and actual commission income and expenses and the size of the assets under management. Both assets under management and net commission income depend on customer behaviour and the market environment. Account is taken of fund price movements and unexpected net outflows when determining fund volatility. For banking activities, margins on commission business are taken into account as an additional risk factor. There are currently no business risks to be considered in the Treasury corporate centre and non-core business.

During the year under review, the VaR for business risk fell to €234m (2016: €356m). Risk capital of €400m is allocated to business risk (2016: €540m). Utilisation is thus 58.6%, which is within the non-critical band.

The introduction of more precise modelling for price movements and changes in customer behaviour, which now takes account of movements in assets under management, had the effect of reducing the risk level in the Asset Management Securities and Asset Management Real Estate business divisions. In the Capital Markets business division, risk levels decreased in particular due to the introduction of a VaR approach in place of the gross method previously used for banking business.

Reputational risk

Because of the way they affect the business, reputational risks are seen as a component of, or as factors that increase, other types of risk. Existing types of risk can be both a cause and an effect of reputational damage. The effects of reputational damage relate primarily to business risk and liquidity risk.

In accordance with the definition of reputational risk, it is initially determined, assessed, managed and reported on within the context of the individual risk types concerned. For instance, when conducting the self-assessment of operational risks, a systematic determination and qualitative assessment of reputational risks are also performed. At the same time, reputational risks are managed in connection with counterparty risks via blacklists and using an appropriate assessment as part of the credit approval process. Finally, when evaluating business risk, the risk of lower commissions due to the materialisation of reputational risks is taken into account.

Other risks

Shareholding risk

Equity investments (shareholdings) include all direct and indirect holdings of the Deka Group in other companies, regardless of their legal form. Equity investments held as credit substitute transactions fall under the credit risk strategy. In principle, the Deka Group does not pursue any trading interests when taking an equity interest.

The basis for determining the shareholding risk position is the IFRS book value of the (unconsolidated) equity investment. The risk is measured on the basis of the volatility of a benchmark index from the equity market.

The VaR at 31 December 2017 was €37m, which was above the previous year's level of €20m. This was due to the remeasurement of the fair value of various equity investments. The risk capital allocated to shareholding risks was increased accordingly to €60m during the year (2016: €45m).

Property fund risk

Property fund risk results from property fund units held in the Bank's own portfolio. The corresponding VaR fell to €8.0m (2016: €19m) as a result of a reduction in the portfolio position. It thus remains an immaterial risk for the Deka Group. An amount of €40m was allocated to property fund risk at the year-end (2016: €45m) in the course of risk-bearing capacity analysis. Property fund risk will be modelled as part of market price risk as from the 2018 financial year.

Structured capital market credit products

Structured capital market credit products comprise the securitisation portfolio of DekaBank's former Liquid Credits portfolio, which has not been considered to be strategic since 2009 and is being reduced while safeguarding assets. It is assigned to non-core business.

Since the business is being wound down, this portfolio no longer forms a significant part of DekaBank's overall portfolio in volume terms. As a result of maturities and repayments, the net nominal value as at 31 December 2017 was only €173.6m (2016: €319.2m).

At the year-end, 100% of the portfolio (2016: 99.0%) consisted of investment-grade securities. The remaining portfolio continues to focus on western Europe. As at the end of 2017, 95.4% of the securitisations related to the European market (2016: 91.9%).

Based on current expectations, more than half of the remaining securitised positions will be repaid or will expire by mid-2020.

Based on a confidence level of 99% and a holding period of ten days, the credit spread risk for the securitisation positions in non-core business totalled €1.2m as at the year-end (2016: €1.3m).

Consolidated financial statements 2017.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). They comprise the balance sheet, statement of profit or loss and other comprehensive income, statement of changes in equity, cash flow statement and the notes. Together with economic risk, the economic result – a central performance and management measure – forms the basis for risk/return management in the Deka Group and is, in principle, determined in accordance with the accounting and measurement rules set out in IFRS reporting standards.

Consolidated financial statements

Statement of profit or loss and other comprehensive income
for the period from 1 January to 31 December 2017

€m	Notes	2017	2016	Change	
Interest and similar income		885.3	891.7	–6.4	–0.7%
Interest expenses		761.9	755.5	6.4	0.8%
Net interest income	[31]	**123.4**	**136.2**	–12.8	–9.4%
Provisions for loan losses	[16],[32],[44]	**–28.5**	**–194.6**	166.1	85.4%
Net interest income after provisions for loan losses		**94.9**	**–58.4**	153.3	262.5%
Commission income		2,310.8	2,025.3	285.5	14.1%
Commission expenses		1,109.0	918.1	190.9	20.8%
Net commission income	[33]	**1,201.8**	**1,107.2**	94.6	8.5%
Trading profit or loss	[34]	**190.3**	**252.7**	–62.4	–24.7%
Profit or loss on financial instruments designated at fair value	[35]	**27.2**	**145.0**	–117.8	–81.2%
Profit or loss from fair value hedges according to IAS 39	[36]	**–0.6**	**2.4**	–3.0	–125.0%
Profit or loss on financial investments	[37]	**26.6**	**–13.5**	40.1	297.0%
Administrative expenses	[38]	**1,039.8**	**970.1**	69.7	7.2%
Other operating profit	[39]	**–19.9**	**24.2**	–44.1	–182.2%
Total of profit or loss before tax		**480.5**	**489.5**	–9.0	–1.8%
Income taxes	[40]	**158.6**	**164.3**	–5.7	–3.5%
Interest expenses for atypical silent capital contributions	[29], [62]	**60.6**	**61.2**	–0.6	–1.0%
Total of profit or loss		**261.3**	**264.0**	–2.7	–1.0%
Thereof:					
Attributable to non-controlling interests		0.0	0.0	0.0	o.A.
Attributable to the shareholders of DekaBank		261.3	264.0	–2.7	–1.0%
Changes not recognised in profit or loss					
Items reclassified to profit or loss					
Financial instruments valuation reserve Available for sale	[8], [19], [63]	28.5	5.1	23.4	(> 300%)
Cash flow hedges valuation reserve	[10],[18],[63]	25.7	10.4	15.3	147.1%
Currency translation reserve	[12], [63]	–1.9	–14.4	12.5	86.8%
Deferred taxes on items reclassified to profit or loss	[50], [59]	–8.8	–3.4	–5.4	–158.8%
Items not reclassified to profit or loss					
Revaluation gains/losses on defined benefit pension obligations	[57], [63]	15.4	–15.1	30.5	202.0%
Revaluation reserve investments accounted for using the equity method		–2.1	–1.2	–0.9	–75.0%
Deferred taxes on items not reclassified to profit or loss	[50]	–4.9	5.2	–10.1	–194.2%
Other comprehensive income		**51.9**	**–13.4**	65.3	(> 300%)
Comprehensive income for the period under IFRS		**313.2**	**250.6**	62.6	25.0%
Thereof:					
Attributable to non-controlling interests		0.0	0.0	0.0	o.A.
Attributable to the shareholders of DekaBank		313.2	250.6	62.6	25.0%

Statement of financial position as at 31 December 2017

€m	Notes	31 Dec 2017	31 Dec 2016	Change	
Assets					
Cash reserves	[41]	**10,039.6**	**3,687.6**	6,352.0	172.3%
Due from banks	[15], [42]	**26,396.4**	**20,653.9**	5,742.5	27.8%
(net after provisions for loan losses amounting to)	[16], [44]	(0.3)	(0.2)	0.1	50.0%
Due from customers	[15], [43]	**20,650.5**	**22,840.9**	–2,190.4	–9.6%
(net after provisions for loan losses amounting to)	[16], [44]	(143.5)	(333.1)	–189.6	–56.9%
Financial assets at fair value	[17], [45]	**31,985.4**	**34,903.2**	–2,917.8	–8.4%
(of which deposited as collateral)	[74]	(4,880.4)	(5,200.0)	–319.6	–6.1%
Positive market values of derivative hedging instruments	[10], [18], [46]	**20.4**	**28.6**	–8.2	–28.7%
Financial investments	[19], [47]	**3,790.7**	**2,968.9**	821.8	27.7%
(net after provisions for loan losses amounting to)	[19]	(43.2)	(53.8)	–10.6	–19.7%
(of which deposited as collateral)	[74]	(1,398.5)	(774.4)	624.1	80.6%
Intangible assets	[20], [48]	**194.7**	**198.1**	–3.4	–1.7%
Property, plant and equipment	[21], [49]	**27.4**	**17.1**	10.3	60.2%
Current income tax assets	[23], [50]	**186.2**	**193.6**	–7.4	–3.8%
Deferred income tax assets	[23], [50]	**148.4**	**156.1**	–7.7	–4.9%
Other assets	[22], [51]	**300.6**	**306.7**	–6.1	–2.0%
Total assets		**93,740.3**	**85,954.7**	7,785.6	9.1%
Liabilities					
Due to banks	[24], [52]	**19,237.8**	**17,362.4**	1,875.4	10.8%
Due to customers	[24], [53]	**26,660.9**	**23,419.1**	3,241.8	13.8%
Securitised liabilities	[24], [54]	**14,234.8**	**11,076.1**	3,158.7	28.5%
Financial liabilities at fair value	[17], [55]	**25,982.7**	**26,519.5**	–536.8	–2.0%
Negative market values of derivative hedging instruments	[10], [18], [56]	**12.0**	**34.4**	–22.4	–65.1%
Provisions	[25], [26], [57], [58]	**322.9**	**358.0**	–35.1	–9.8%
Current income tax liabilities	[23], [59]	**21.7**	**58.9**	–37.2	–63.2%
Deferred income tax liabilities	[23], [59]	**147.4**	**123.3**	24.1	19.5%
Other liabilities	[27], [60]	**831.1**	**745.7**	85.4	11.5%
Subordinated capital	[28], [61]	**927.1**	**1,118.5**	–191.4	–17.1%
Atypical silent capital contributions	[29], [62]	**52.4**	**52.4**	0.0	0.0%
Equity	[30], [63]	**5,309.5**	**5,086.4**	223.1	4.4%
a) Subscribed capital		191.7	191.7	0.0	0.0%
c) Additional capital components		473.6	473.6	0.0	0.0%
c) Capital reserve		190.3	190.3	0.0	0.0%
d) Reserves from retained earnings		4,462.6	4,293.0	169.6	4.0%
e) Revaluation reserve	[30], [63]	–80.9	–134.7	53.8	39.9%
f) Currency translation reserve	[12]	–0.1	1.8	–1.9	–105.6%
g) Accumulated profit/loss (consolidated profit)		72.3	70.7	1.6	2.3%
h) Minority interests		0.0	0.0	0.0	o.A.
Total liabilities		**93,740.3**	**85,954.7**	7,785.6	9.1%

Statement of changes in equity for the period from 1 January to 31 December 2017

€m	Subscribed capital	Additional capital components	Capital reserves	Reserves from retained earnings	Consolidated profit/loss
Holdings as at 1 Jan 2016	**191.7**	**473.6**	**190.3**	**4,119.1**	**67.9**
Total of profit or loss					264.0
Other comprehensive income					
Comprehensive income for the period under IFRS	**–**	**–**	**–**	**–**	**264.0**
Changes in the scope of consolidation and other changes[1]				–19.4	
Allocation to reserves from retained earnings				193.3	–193.3
Distribution					–67.9
Holdings as at 31 Dec 2016	**191.7**	**473.6**	**190.3**	**4,293.0**	**70.7**
Total of profit or loss					261.3
Other comprehensive income					
Comprehensive income for the period under IFRS	**–**	**–**	**–**	**–**	**261.3**
Changes in the scope of consolidation and other changes[1]				–19.4	
Allocation to reserves from retained earnings				189.0	–189.0
Distribution					–70.7
Holdings as at 31 Dec 2017	**191.7**	**473.6**	**190.3**	**4,462.6**	**72.3**

[1] Comprises the payment of interest (after tax) of the Additional Tier 1 bond, which is classified as equity capital under IFRS.
[2] Revaluation gains/losses on defined benefit obligations

Revaluation reserve					Currency translation reserve	Total before minority interests	Minority interests	Equity
Provisions for pensions[2)]	Cash flow hedges	Financial instruments available for sale	Equity-accounted companies	Deferred taxes				
–154.4	**–39.5**	**–**	**–3.3**	**61.5**	**16.2**	**4,923.1**	**–**	**4,923.1**
						264.0		**264.0**
–15.1	10.4	5.1	–1.2	1.8	–14.4	**–13.4**		**–13.4**
–15.1	**10.4**	**5.1**	**–1.2**	**1.8**	**–14.4**	**250.6**	**–**	**250.6**
						–19.4	–	**–19.4**
						–		**–**
						–67.9		**–67.9**
–169.5	**–29.1**	**5.1**	**–4.5**	**63.3**	**1.8**	**5,086.4**	**–**	**5,086.4**
						261.3		**261.3**
15.4	25.7	28.5	–2.1	–13.7	–1.9	**51.9**		**51.9**
15.4	**25.7**	**28.5**	**–2.1**	**–13.7**	**–1.9**	**313.2**	**–**	**313.2**
						–19.4	–	**–19.4**
						–		**–**
						–70.7		**–70.7**
–154.1	**–3.4**	**33.6**	**–6.6**	**49.6**	**–0.1**	**5,309.5**	**–**	**5,309.5**

Cash flow statement for the period from 1 January to 31 December 2017

€m	31 Dec 2017	31 Dec 2016
Net income	**261.3**	**264.0**
Non-cash items in net income and adjustments to reconcile net profit with cash flow from operating activities		
+/– Write-downs and write-backs		
on receivables and financial investments	5.9	207.5
on intangible assets and property, plant and equipment	19.2	18.1
+/– Allocation to/reversal of provisions	71.4	27.3
+/– Profit or loss from fair value hedges according to IAS 39	0.6	–2.4
+/– Other non-cash items	–180.0	–26.6
+/– Profit or loss on the disposal of financial investments and property, plant and equipment	–4.7	2.2
+/– Other adjustments	202.8	138.4
= **Sub-total**	**376.5**	**628.5**
Change to assets and liabilities arising from operating activities		
+/– Due from banks	–5,788.9	6,520.6
+/– Due from customers	2,159.1	–555.6
+/– Financial assets at fair value	714.1	17,262.5
+/– Financial investments	–266.7	–154.4
+/– Other assets arising from operating activities	–9.9	7.2
+/– Due to banks	1,895.0	–6,749.1
+/– Due to customers	3,279.6	–6,660.9
+/– Securitised liabilities	3,164.9	–8,850.1
+/– Financial liabilities at fair value	1,909.3	–1,718.3
+/– Other liabilities arising from operating activities	–5.0	29.4
+ Interest paid	960.7	1,076.2
+ Dividends received	20.9	19.0
– Interest paid	–936.9	–754.8
– Income tax payments	–161.2	–214.9
Cash flow from operating activities	**7,311.5**	**–114.7**
+ Proceeds from the disposal or redemption of		
financial investments classified as held to maturity	0.0	373.8
equity investments	17.1	4.1
property, plant and equipment	0.0	0.0
intangible assets	0.2	0.0
– Disbursements for the purchase of		
financial investments classified as held to maturity	–578.7	0.0
intangible assets	–11.7	–19.2
property, plant and equipment	–14.8	–2.7
+ Proceeds from the sale of shares in affiliated, non-consolidated companies	0.0	0.0
– Disbursements for the acquisition of shares in affiliated, non-consolidated companies	0.0	–0.4
+ Dividends received	2.2	0.0
+/– Changes in scope of consolidation and other changes	0.0	–4.3
Cash flow from investing activities	**–585.7**	**351.3**
+ Proceeds from issue of new equity capital	0.0	0.0
– Payments to company owners and minority interests	–124.5	–48.1
– Dividends paid	–70.7	–67.9
+ Inflow of funds from subordinated capital	0.0	0.0
– Outflow of funds from subordinated capital	–178.6	–40.9
+/– Changes in scope of consolidation and other changes	0.0	0.0
Cash flow from financing activities	**–373.8**	**–156.9**
= Changes to cash and cash equivalents	6,352.0	79.7
+/– Other effects	0.0	0.0
+ Cash and cash equivalents at the start of the period	3,687.6	3,608.1
Cash and cash equivalents at the end of the period	**10,039.6**	**3,687.8**

The cash flow statement shows the change in the Deka Group's cash balance during the financial year. The item cash and cash equivalents corresponds to the balance sheet item cash reserves (see note [41]).

Cash flow from operating activities was determined using the indirect method. In other words, the consolidated profit or loss for the year was adjusted to eliminate non-cash items such as measurement results and additions to provisions. The item other adjustments mainly includes the reclassification of interest and dividends received as cash and interest and income tax payments made during the financial year which have to be reported separately in accordance with IAS 7.

Cash flow from investing activities shows the proceeds and disbursements relating to items whose purpose relates in principle to long-term investment or use.

Financing activities include equity as well as cash flows from atypical silent capital contributions and from subordinated capital. The table below provides an overview of movements in financing liabilities.

		Cash changes	Non-cash changes			
€m	**2016**		**Acquisition**	**Foreign exchange movement**	**Fair value changes**	**2017**
Subordinated liabilities	906.6	– 1.1	–	–	– 5.8	899.7
Typical silent capital contributions	211.9	– 177.5	–	–	– 7.0	27.4
Total subordinated capital	**1,118.5**	**– 178.6**	**–**	**–**	**– 12.8**	**927.1**
Atypical silent capital contributions	52.4	–	–	–	–	52.4

The cash flow statement is of minor importance for banks as it does not provide any information about the actual liquidity position. For details of Deka Group's liquidity risk management, please see the risk report.

Notes

Accounting standards

1 Accounting principles

The consolidated financial statements of DekaBank Deutsche Girozentrale have been prepared in accordance with International Financial Reporting Standards (IFRS). The applicable IFRSs are those published by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) into European law at the time the financial statements are prepared. Account is also taken of the national regulations contained in the German Commercial Code (*Handelsgesetzbuch* – HGB) under section 315e of the HGB. The management report was prepared in accordance with section 315 of the HGB.

The consolidated financial statements, which are reported in euros, comprise the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity, cash flow statement and the notes. All amounts are rounded in accordance with standard commercial practice. This may result in small discrepancies in the calculation of totals within tables.

2 Accounting regulations applied for the first time and to be applied in future

During the year under review, the following changes to existing accounting standards were applied for the first time with a material impact on the consolidated financial statements. A number of other standards and interpretations were also passed. These, however, are not expected to have a material impact on the consolidated financial statements.

IAS 7

In January 2016, as part of a disclosure initiative to improve financial statements, the IASB published amendments to IAS 7 “Statement of Cash Flows”. In particular, the new rules contain additional disclosure obligations concerning cash flows related to financing activities. Upon adoption, it is not necessary to provide comparative figures for any previous periods that are included in the financial statements. Implementation of these amendments has led to an expansion of the notes to the financial statements.

New standards and interpretations and amendments to existing standards and interpretations published by the IASB and IFRIC which do not have to be applied until subsequent financial years were not applied early. Standards relevant to the Deka Group are presented below.

Standards adopted into European law but not yet applied

IFRS 9

The IASB published the final requirements for IFRS 9 “Financial Instruments” on 24 July 2014. IFRS 9 contains new regulations governing the classification and measurement of financial instruments, the impairment of financial assets and the recognition of hedging relationships. IFRS 9 was adopted into European law by the European Commission in November 2016. As a result, application of IFRS 9 is mandatory for financial years beginning on or after 1 January 2018.

Overall, the Deka Group expects the introduction of IFRS 9 to have a moderate impact on the statement of financial position and equity upon first application. The most significant effects and the principal factors behind them are described below.

Classification and measurement of financial assets and liabilities

Effects arise *inter alia* from the need to reclassify financial assets and from recording fair value changes attributable to own credit risk for liabilities.

In contrast to IAS 39, the new classification rules under IFRS 9 provide for a classification model for assets that is based on the underlying business model and contractual cash flows. The business model reflects how the Bank manages its financial assets in order to generate cash flows. For the purposes of IFRS 9, there are thus the following business models: "held to collect", "held to collect and to sell" and "other". Where a financial asset is allocated to the "held to collect" or "held to collect and to sell" business models, it is necessary to examine the cash flow criterion. To satisfy the cash flow criterion, the cash flows from the asset must consist solely of repayments of principal and interest payments on the principal amount. Interest in this regard essentially represents consideration for the time value of money and the credit risk. Financial instruments that are allocated to the "held to collect" business model and satisfy the cash flow criterion are measured at amortised cost. Financial instruments allocated to the "held to collect and to sell" business model are measured at fair value through other comprehensive income during the holding period and reclassified to profit or loss upon disposal. Financial instruments allocated to the "held to collect" or "held to collect and to sell" business models that do not satisfy the cash flow criterion are measured at fair value through profit or loss. Financial instruments allocated to the "other" business model are likewise measured at fair value through profit or loss.

Loans that were previously classified under "Loans and receivables" under IAS 39 will generally be allocated to the "held to collect" business model upon implementation of the new classification rules. However, this will not be the case for loans that were acquired with the intention to resell, which are duly allocated to the "other" business model, or for loans that fail to satisfy the cash flow criterion and are therefore to be measured at fair value, instead of at amortised cost as previously.

Securities forming part of "non-core business", which were previously classified as Loans and receivables under IAS 39 and therefore measured at amortised cost, will in future be allocated to the "other" business model under IFRS 9.

Under IFRS 9, credit-related changes in the value of liabilities measured at fair value will no longer be taken to profit or loss but will instead be disclosed in other comprehensive income. The Deka Group has not exercised the option to apply this rule early.

Impairment of financial assets

Effects will also result from a change in the model used for determining loan loss provisions. From 2018, the expected loss model will be used, in place of the incurred loss model applicable under IAS 39. These rules mainly apply to instruments measured at amortised cost or at fair value through other comprehensive income. Under the expected loss model, assets within the scope of IFRS 9 must be allocated to one of three "stages" depending on their credit quality in order to determine the loan loss provision required. The stage to which an asset is allocated has an effect on the size of the loan loss provision to be established for that asset. Upon initial recognition, a loan loss provision will be recognised through profit or loss in the amount of the expected loss for the next 12 months, and the asset will be allocated to stage one. If the credit risk increases significantly after initial recognition of the financial instrument, or if there are indications that creditworthiness has been impaired, the expected losses over the remaining term of the financial instrument ("lifetime expected credit losses") will be recognised through profit or loss and the asset transferred to stage two.

The Deka Group generally examines for a significant rise in credit risk since the acquisition of a financial instrument using a quantitative and a qualitative test. Under this test, a significant risk increase is assumed where the credit rating has dropped by a specified amount relative to the initial rating on the first balance sheet date, or where the loan has been classified as non-performing. In addition, if payment by the business partner is 30 days overdue, a check is also made as to whether the presumption of a significant increase in credit risk can be rebutted. If this is not the case, these loans, too, will be classified to stage 2.

For securities measured at fair value through other comprehensive income (FVOCI) under IFRS respectively classified to the "held to collect and to sell" business model, the Deka Group will avail itself of the relief provided for under the standard, whereby a test for significant risk increase may be dispensed with for instruments with a low risk of default. Such securities exclusively comprise securities held in the liquidity reserve, which must satisfy strict requirements as to credit quality and liquidity.

If there are objective indications that a loss event has already occurred, the financial instrument should be allocated to stage three. However, an exception is made for purchased or originated credit-impaired (POCI) assets. For POCI financial instruments, no loan loss provision is booked at the time of initial recognition, but changes in the amount of the lifetime ECL will be recognised in provisions in subsequent periods. The definition of default applied by the Deka Group when allocating instruments to stage 3 is identical in scope to the prudential definition of default under the CRR. It is also consistent with the classification of an exposure as a non-performing loan (NPL) under the criteria set out in the relevant EBA guidelines. Differences in the treatment of NPLs arise solely with regard to exposures that cease to be non-performing according to the CRR during the twelve-month probation period prescribed by the EBA. Under IFRS 9, such exposures are reclassified immediately to stage 1 or stage 2 once they cease to be non-performing according to the CRR.

Hedge accounting

Implementation of the new rules on hedge accounting is non-mandatory for the time being. The Deka Group has decided to continue accounting for hedging relationships in accordance with IAS 39. In the future, it is expected that financial instruments attributed to the "held to collect and to sell" business model will be designated as hedged items, in addition to financial instruments attributed to the "held to collect" business model and own issues.

Impact of first application on balance-sheet equity

The Deka Group expects first application of IFRS 9 to have an impact on balance-sheet equity of around €–47m, before tax. This figure derives from an estimate based on the most recent available reliable information at the time these financial statements were prepared. Of the total, approximately €–18m derives from the change in the determination of loan loss provisions and approximately €–29m from the change in the classification rules.

Changing the provisioning model will affect balance-sheet equity in respect of financial instruments which are and continue to be measured at amortised cost. Upon first application of IFRS 9, it is expected that a loan loss provision will be recognised in accordance with the expected loss model of around €132m for specific risks and around €35m for collective risks.

The Deka Group expects that the change in the impairment model relative to IAS 39 will in future lead to bigger movements in loan loss provisions, as a provision covering the entire lifetime of a financial instrument must be made as soon as credit risk increases, rather than upon default as is the case now.

The impact of the change in the classification rules on balance-sheet equity before tax is due to the first-time measurement at fair value of financial instruments that were previously measured at amortised cost under IAS 39. The first-time measurement at fair value of loans that do not satisfy the cash flow criterion and/or are held for resale is expected to lead to a first application effect of €–4m. The first-time measurement at fair value of securities held in the "non-core business" portfolio is expected to have an effect of €–25m.

The reclassification of financial instruments upon first application is not expected to affect existing hedging relationships. No first-application impact on equity is therefore expected in this regard.

Implementation of IFRS 9

The new accounting rules for the recognition of impairments and the classification and measurement of financial instruments require significant modifications to be made to current systems and processes, particularly in respect of the expansion required to the current data repository. Significant efforts will also be required during implementation because the new IFRS 9 rules significantly increase the amount of disclosures required for the Deka Group as a whole. These requirements are being implemented centrally in the form of an IFRS 9 project managed by the Finance department. The project essentially divides into a preliminary examination phase (September 2015 to April 2016), a detailed specialist design phase (2016), implementation and testing (2017) and the creation of the opening statement of financial position and first-time publication of key ratios for the current financial year of 2018.

IFRS 15

IFRS 15 "Revenue from Contracts with Customers" was published in May 2014. This new standard replaces the previous rules on revenue recognition (IAS 18 "Revenue", IAS 11 "Construction Contracts" and the associated interpretations). The new standard provides a five-step model to be used to determine the amount and timing of revenue recognition. IFRS 15 is in principle applicable to all customer agreements for the sale of goods or provision of services.

In addition, clarifications to IFRS 15 were published in April 2016. They are solely concerned with clarifications and additional transitional relief.

The new standard applies to financial years beginning on or after 1 January 2018. Earlier voluntary adoption is permitted.

The impact on the consolidated financial statements has been reviewed. No material impact on the statement of profit or loss and comprehensive income is expected. Changes in statement of financial position disclosure will result from the separate presentation of receivables, contract assets and contract liabilities. The modified retrospective method will be applied for the first time in 2018. IFRS 15 contains supplementary disclosures in the notes to the financial statements on the nature, amount, timing and uncertainty of revenue and cash flows resulting from contracts with customers. This gives rise to changes in processes as well as increased documentation requirements.

IFRS 16

The new IFRS 16 was published in January 2016 and governs how leases should be accounted for. IFRS 16 will replace IAS 17 "Leases", as well as the associated interpretations IFRIC 4, SIC-15 and SIC-27. Application of the new standard is mandatory for financial years beginning on or after 1 January 2019. Earlier voluntary adoption is permitted, but only in conjunction with IFRS 15.

The new standard requires lessees to follow an entirely new approach when presenting leasing contracts in the financial statements. Under IAS 17, the key factor in determining how a lessee should present a lease in its financial statements is whether or not substantially all of the risks and rewards of ownership of the leased item have been transferred to the lessee. In future, every lease should be presented on the lessee's statement of financial position as a financing transaction, in the form of a lease liability and a right-of-use asset. The amount recognised is the present value of the future lease payments, with additional factors being taken into account in relation to the right-of-use asset, for example directly attributable costs. Over the lease term, the lease liability is amortised, while the right-of-use asset is depreciated through the statement of profit or loss and other comprehensive income. The standard provides for exemptions in certain cases, for example short-term leases or leases of low-value assets. The accounting requirements for lessors remain largely unchanged, in particular in terms of the ongoing requirement to classify leases.

Furthermore, IFRS 16 includes a number of additional provisions regarding disclosures in the notes to the financial statements. This is expected to affect the accounting treatment of leased commercial properties, although the impact on the Deka Group's financial position and financial performance is likely to be negligible. A minor increase in total assets is expected, while some reclassifications between items in the statement of profit or loss will also result.

Standards and interpretations not yet adopted into European law

IFRIC 23

The IASB published IFRIC interpretation 23, "Uncertainty over Income Tax Treatments", in June 2017. IFRIC 23 concerns the recognition and measurement of tax risk exposures. Under this interpretation, tax risks should be provided for in the accounts if it is probable that the tax authorities will not accept a particular tax treatment. This approach disregards the likelihood of discovery by the tax authorities (discovery risk). Tax risks may be measured either at the most likely amount or at the expected value, whichever method best reflects the existing risk. Application of IFRIC 23 will be mandatory in financial years beginning on or after 1 January 2019. Voluntary early adoption is permitted. The new interpretation is currently being evaluated.

IFRS 9

In October 2017, the IASB published "Prepayment Features with Negative Compensation (Amendments to IFRS 9)". This merely concerns the extension of an existing exception to the standard rule. Under the amended exception, a financial asset with an early repayment option may now be measured either at amortised cost or at fair value through other comprehensive income where the party terminating the contract *receives* a reasonable compensation payment in the course of effecting repayment. Application of the new rules is mandatory for financial years beginning on or after 1 January 2019. Voluntary early adoption is permitted. The amendments have no effect on the consolidated financial statements.

IAS 28

In October 2017, the IASB also published "Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)". Under the amended rules, long-term interests that, in substance, form part of the net investment in an entity accounted for using the equity method are to be recognised and measured in accordance with IFRS 9. Any impairment charges to such interests will thus also be calculated in accordance with the rules under IFRS 9. The rule under IAS 28.38, whereby losses are not recognised in excess of the carrying value of an interest accounted for under the equity method, has not been changed. Application of the new rules is mandatory for financial years beginning on or after 1 January 2019. Voluntary early adoption is permitted. The amendments have no material effect on the consolidated financial statements.

Annual Improvements

In December 2017, the IASB published amendments to four standards as part of its Annual Improvements Project for 2015-2017. Application of the new rules is mandatory for financial years beginning on or after 1 January 2019. The amendments will affect the approach to and measurement of transactions. Voluntary early adoption is permitted. The amendments are currently being evaluated.

Segment reporting

3 Segmentation by operating business divisions

Segment reporting is based on the management approach in accordance with IFRS 8. Segment information is presented in line with internal reporting as submitted to the Chief Operating Decision Maker on a regular basis for decision-making, resource allocation and performance assessment purposes. The Deka Group's management reporting is based on IFRS.

However, as total profit before tax is of limited suitability for the internal management of the business divisions, the economic result has been defined as the key management indicator. Due to the requirements of IFRS 8, the economic result has also been included in external reporting as material segment information.

In addition to total profit before tax, the economic result includes changes to the revaluation reserve (before tax) as well as the interest- and currency-related valuation result from original lending and issuance business. This refers to financial instruments in the loans and receivables, held to maturity and other liabilities categories, which are measured at amortised cost in the consolidated financial statements and whose valuation result is also included in internal reporting. Consequently, any economic hedges which do not meet the criteria for hedge accounting under IAS 39 are presented in full for internal management purposes. Furthermore, the economic result takes into account the interest expense on Additional Tier 1 bonds, which is reported directly within equity, as well as effects relevant for management. The latter relate to a provision for potential charges where the probability of such charges arising in the future is assessed as possible, and which are taken into account within corporate management activities as a result of the use of the economic result for management purposes, but which may not yet be reported under IFRS because they are not sufficiently substantiated. The measurement and reporting differences versus the IFRS consolidated financial statements are shown in the reconciliation to Group profit before tax in the "reconciliation" column.

Another key indicator, in addition to the economic result, is total customer assets. Total customer assets primarily comprise the income-relevant assets of the mutual and special funds (including ETFs) in the Asset Management Securities and Asset Management Real Estate business divisions, as well as certificates issued by the Deka Group. Other components are the volume of direct investments in cooperation partner and third party funds, the cooperation partner, third party fund and liquidity portions of fund-based asset management as well as advisory/management mandates and master funds. Total customer assets also include fund units of €1.6bn (previous year: €1.3bn) held as part of the proprietary portfolio. These mainly relate to start-up financing for newly launched investment funds.

Based on the definition of section 19 (1) of the German Banking Act (*Kreditwesengesetz* – KWG), gross loan volume includes additional risk exposures such as, among other things, underlying risks from equity derivative transactions and transactions for the purposes of covering guarantee payments on guarantee funds, as well as the volume of off-balance sheet counterparty risks.

The following segments are based on the divisional structure of the Deka Group, as also used in internal reporting. The segments are defined by the different products and services of the Deka Group. To strengthen governance and achieve an even clearer separation between banking business and asset management, activities were reorganised into five business divisions with effect from 1 January 2017.

The prior-year figures in the segment reporting have been updated to reflect the new divisional structure, and therefore do not correspond to the figures published last year.

Asset Management Securities

The Asset Management Securities reporting segment focuses on the active management of securities funds as well as investment solutions and services for private investors and institutional customers. In addition, passive investment solutions are also offered. In addition to investment funds and structured investment concepts, the product range also includes products from selected international cooperation partners. The Deka Group's investment funds cover all major asset classes, sometimes in conjunction with guarantee, discount and bonus structures. The offering for private retirement pensions encompasses fund-based Riester and Rürup products. The segment also comprises advisory, management and asset management mandates for institutional customers. In addition, the segment includes business involving listed ETFs. The range of services offered by the segment furthermore includes asset servicing and Master KVG activities, which institutional customers can use to pool their assets under management in a single investment company.

Asset Management Real Estate

The Asset Management Real Estate reporting segment focuses on providing property investment products for private and institutional investors. The product range includes open-ended mutual property funds, special property funds and credit funds that invest in property, infrastructure and vehicle loans, and property advice for institutional investors. In addition to fund management, fund risk management and development of property-related products, the segment also covers the purchase and sale of properties and the management of such assets, including all other property-related services (property management).

Asset Management Services

The Asset Management Services reporting segment focuses on providing banking services for asset management. The services range from managing custody accounts for customers to custodial services for investment funds. The segment also provides digital support for the securities business of the savings banks, especially through the provision of multi-channel solutions. The activities of the Asset Management Services business division complement the asset management services offered by the Asset Management business divisions.

Capital Markets

The Capital Markets reporting segment is the central product, solution and infrastructure provider and service provider in the Deka Group's customer-focused capital markets business. Its role as a securities and collateral platform (which includes acting a risk hub) also contributes to the Group's success. The segment focuses on the generation of customer-driven business in the triangle of savings banks, the Deka Group and selected counterparties and business partners, which include external asset managers, banks, insurance companies and pension funds. In this environment, the Capital Markets segment offers a carefully coordinated, competitive range of capital market and credit products. Securities investments of the Deka Group are also managed by the Capital Markets business division, except those that serve as a liquidity reserve.

Financing

Since the reorganisation of the divisional structure as of 1 January 2017, the Financing reporting segment is made up of real estate financing and specialist financing, including financing of the savings banks. Lending is taken onto our own statement of financial position via the banking book, as well as being packaged as an investment product for other banks or institutional investors via club deals or syndications. Priority is given to placements within the *Sparkassen-Finanzgruppe*. The specialist financing business concentrates on selected segments, such as infrastructure financing, ship and aircraft financing, financing covered by ECAs and savings bank financing. Specialist financing positions entered into before the credit risk strategy was changed in 2010 are classified separately in the legacy portfolio. Real estate lending is mainly provided for commercial real estate and is focused on marketable properties in the office, retail, shopping, hotel and logistics segments in liquid markets in Europe, North America and Asia/Pacific.

Other

The Other segment primarily comprises income and expenses that are not attributable to the reportable segments. These essentially comprise overheads, actuarial gains and losses resulting from the measurement of pension obligations as well as a general provision for potential losses that are not directly allocable to any operating segment. Since 2016, the income and expenses of the Treasury function have been allocated to the other segments on a source-specific basis, and are therefore shown in the presentation of the economic result of the respective segments.

Non-core business

Business activities that are being discontinued have been pooled in non-core business since 2009. The portfolio essentially comprises securitised products (legacy transactions) and the former public finance portfolios. All portfolios are being wound down while safeguarding assets. This will be the last year in which non-core business is disclosed as a separate segment, as the managed winding-down of these activities is now largely complete. The remaining portfolios were transferred to the Capital Markets business division as of 1 January 2018.

	Asset Management Securities		Asset Management Real Estate		Asset Management Services		Capital Markets		Financing	
	Economic result									
€m	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Net interest income	16.0	13.1	4.8	3.5	4.2	1.8	36.0	40.7	114.2	119.8
Provisions for loan losses	–	–	–	–	–	–	–	0.1	–28.5	–194.5
Net commission income	716.1	666.3	240.4	196.1	161.7	150.0	51.2	66.9	34.3	29.6
Net financial income[1]	26.9	0.8	–0.2	–2.7	–0.1	3.6	295.9	262.3	–10.6	–14.3
Other operating profit[2]	–8.8	14.9	1.9	1.8	–2.1	35.5	2.3	12.1	14.6	0.3
Total income without contributions to earnings from Treasury function	**750.2**	**695.1**	**246.9**	**198.8**	**163.7**	**190.9**	**385.4**	**382.1**	**123.9**	**–59.2**
Administrative expenses (including depreciation)	389.7	391.0	133.0	126.9	165.4	114.2	165.9	170.1	56.6	52.1
Restructuring expenses[2]	3.8	18.5	–	–	1.6	–	–	–	–	–
Total expenses before allocation of Treasury function	**393.5**	**409.5**	**133.0**	**126.9**	**167.0**	**114.2**	**165.9**	**170.1**	**56.6**	**52.1**
(Economic) result before tax without Treasury function	**356.7**	**285.6**	**113.9**	**71.9**	**–3.3**	**76.8**	**219.5**	**212.0**	**67.4**	**–111.3**
Treasury function	–11.3	–7.1	–2.9	–2.5	–1.6	–1.4	–23.9	–15.4	–16.9	–9.5
(Economic) result before tax	**345.4**	**278.6**	**111.0**	**69.4**	**–4.8**	**75.4**	**195.6**	**196.6**	**50.5**	**–120.7**
Cost/income ratio[3]	0.52	0.56	0.54	0.64	1.01	0.60	0.43	0.45	0.37	0.39
Group risk (value-at-risk)[4]	494	487	79	110	110	115	672	652	462	398
Total customer assets	230,991	209,242	34,345	32,484	–	–	17,552	15,079	–	–
Gross loan volume	6,545	6,368	35	222	675	764	83,522	76,078	21,577	21,700

[1] This includes the result from assets held for trading (trading book portfolio), the result from non-trading assets (banking book portfolio), the result from other financial investments as well as the result from repurchased own issues. It also includes the risk provision for securities in the LaR and HtM categories of €10.7m (previous year: €–15.2m).

[2] Restructuring expenses are disclosed in the Group financial statements under Other operating profit.

[3] Calculation of the cost/income ratio does not take into account the restructuring expenses or the loan loss provision for lending business.

Reconciliation of segment results to the IFRS result

In principle, income and expenses are allocated on a source-specific basis to the relevant segment. Segment expenditure is made up of direct expenses plus expenses allocated on the basis of cost and service accounting.

During the financial year, the reporting and measurement differences between internal reporting and the total profit before tax under IFRS amounted to €–31.6m (previous year: €–74.4m).

The valuation result taken to other comprehensive income from original lending and issuance business and from securities in the Held to Maturity category, was €25.2m in the year under review (previous year: €–31.9m). The economic result also includes the total interest expense (including accrued interest) of €–28.4m on the AT1 bonds (previous year: €–28.4m). Distributions made were recorded directly in equity, in accordance with IAS 32. The increase of €67.5m in the revaluation reserve before tax (previous year: decrease of €–0.8m) is also included in the economic result.

Other[5]		Total core business		Non-core business		Deka Group		Reconciliation		Deka Group	
Economic result										Comprehensive income before tax (IFRS)	
2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
–22.8	–45.3	152.4	133.7	3.2	5.5	155.6	139.2	–32.2	–3.0	123.4	136.2
0.1	–0.2	–28.5	–194.6	–	–	–28.5	–194.6	–	–	–28.5	–194.6
–1.1	–1.5	1,202.7	1,107.4	–	–	1,202.7	1,107.4	–0.9	–0.2	1,201.8	1,107.2
–164.0[6]	53.4[6]	147.9	303.1	8.4	13.4	156.3	316.5	87.2	70.1	243.5	386.6
0.3	–29.4	8.0	35.2	–	–	8.0	35.2	–22.5	7.5	–14.5	42.7
–187.6	**–23.0**	**1,482.6**	**1,384.8**	**11.5**	**18.9**	**1,494.1**	**1,403.7**	**31.6**	**74.4**	**1,525.7**	**1,478.1**
128.9	115.1	1,039.4	969.3	0.4	0.8	1,039.8	970.1	–	–	1,039.8	970.1
–	–	5.4	18.5	–	–	5.4	18.5	–	–	5.4	18.5
128.9	**115.1**	**1,044.8**	**987.8**	**0.4**	**0.8**	**1,045.2**	**988.6**	**–**	**–**	**1,045.2**	**988.6**
–316.5	**–138.1**	**437.7**	**396.9**	**11.2**	**18.2**	**448.9**	**415.1**	**31.6**	**74.4**	**480.5**	**489.5**
56.5	35.7	–	–	–	–	–	–	–	–	–	–
–260.0	**–102.3**	**437.7**	**396.9**	**11.2**	**18.2**	**448.9**	**415.1**	**31.6**	**74.4**	**480.5**	**489.5**
–	–	0.69	0.61	0.03	0.04	0.68	0.61				
246	314	2,015	2,013	43	55	2,035	2,039				
–	–	282,888	256,805	–	–	282,888	256,805				
23,911	18,427	136,264	123,560	552	777	136,817	124,336				

[4] Value-at-risk for economic risk capacity with confidence level of 99.9% and holding period of one year. Due to the diversification within market price risk between the segments (including Other and Non-core business) the risk for core business and the risk for the Deka Group are not cumulative. Business division data for 2016 are approximate, having been calculated retrospectively based on the new divisional structure in place since 1/1/2017.

[5] No cost/income ratio is presented for the segment Other because as this is deemed of limited economic informative value.

[6] This includes effects relevant for management purposes of €–95.0m (previous year: €–10.0m) related to a provision for potential losses. This is additional information provided on a voluntary basis and does not form part of the IFRS notes.

To cover potential risks that could materialise in the coming months, a general provision was recognised for the first time in the 2012 financial year. As at 31 December 2016, the provision for these effects in the management accounts amounted to €–205.0m (previous year: €–110.0m). The net impact on the economic result was thus €–95.0m in the reporting year, which is reported under Other. The net impact in the previous year was €–10.0m, which was likewise reported under Other.

The other amounts shown in the reconciliation column essentially concern differences in presentation between management reporting and the consolidated financial statements. Of these, €61.4m (previous year: €31.3m) relates to internal transactions that are reported in the economic result. The majority of these are included within net interest income, while the corresponding offsetting income effects are reported under net financial income. There are also presentation differences in net financial income and other operating profit from the different allocation of income effects from the repurchases of own issues and the deconsolidation of Deka REL k.k. (in liquidation), Tokyo.

4 Segmentation by geographical markets

Income from corporate activities by geographical markets is presented below. Allocation to a segment is carried out on the basis of the location of the branch or Group company.

	Germany		Luxembourg		Other		Total Group	
€m	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Income	1,221.0	1,170.4	283.0	306.8	21.7	0.9	1,525.7	1,478.1
Total profit before tax	355.4	359.5	106.0	130.6	19.1	–0.6	480.5	489.5
Long-term segment assets[1]	209.2	211.8	12.8	3.2	0.1	0.2	222.1	215.2

[1] Long-term segment assets excluding financial instruments and deferred income tax assets

Accounting policies

5 General information

Unless otherwise stated, the accounting and valuation methods described were applied uniformly and consistently to the reporting periods presented.

Income and expenses are recognised on an accruals basis. They are recorded and reported in the period to which they may be assigned in economic terms. Premiums and discounts are accrued in accordance with the effective interest rate method and reported in the same way as accrued interest within the balance sheet item in which the underlying financial instrument is reported.

Estimates and assessments required as part of accounting and measurement under IFRS are carried out in accordance with the relevant standards on a best estimate basis and are continually re-evaluated. They are based on empirical values and other factors, including expectations regarding future events that appear reasonable under the given circumstances. Estimation uncertainties arise in connection with – *inter alia* – loan loss provisions, the impairment test for goodwill, and provisions and other liabilities. Where material estimates were required, the assumptions made are explained in detail below in the notes on the relevant line items.

In accordance with IFRS 7 "Financial Instruments: Disclosures", disclosures about the nature and extent of risks arising from financial instruments, which also form part of the notes to the consolidated financial statements, are, with the exception of the breakdown by remaining maturity (see note [70]), presented in the risk report as a part of the Group management report.

6 Consolidation principles

Subsidiaries are companies that are controlled by DekaBank, either directly or indirectly. Assessment of whether DekaBank, as the parent company, is able to exert control over an entity, and hence whether that entity must be consolidated, is carried out by considering the following three criteria, all of which must be fulfilled:

- DekaBank has power over the entity, directly or indirectly, by means of voting rights or other contractual rights and hence has the current ability to direct the entity's relevant activities.
- DekaBank is exposed, or has rights, to variable returns from its involvement with the entity.
- DekaBank is currently able to use its power over the entity to affect these variable returns.

If DekaBank holds more than half of the relevant voting rights of an entity, either directly or indirectly, and these voting rights currently enable it to direct the relevant activities of that entity, then control is assumed. Potential voting rights are also taken into account when determining whether the relationship involves control, provided such voting rights are deemed to be substantial.

Under certain circumstances it is possible for control over another company to exist even when the Group does not hold the majority of the relevant voting rights, for instance, by virtue of one or more contractual arrangements or statutory provisions. In assessing whether or not an entity must be consolidated, it is therefore necessary to take account of all the facts and circumstances involved. This includes considering the purpose and the relevant activities of the entity concerned. This is particularly true in the case of structured entities designed such that voting rights or comparable contractual rights are not the dominant factor in determining who controls the entity.

For this reason, the Deka Group also includes structured entities (investment funds, loan financing operations and securitisation companies) when considering which entities must be consolidated.

In assessing whether or not control exists, it is also necessary to verify, where appropriate, whether a principal-agent relationship exists. This is where power over the entity is held by an additional contractual party (agent) which exercises it on behalf of a principal, such that the principal has *de facto* control.

The Deka Group has power over investment funds it sets up and administers, which it exercises as an agent for all investors in these investment funds. As part of the start-up financing process, the Deka Group holds units in the Group's own investment funds in order to make liquidity available to them. In such cases, control may arise if a significant proportion of the variable returns flow to DekaBank as an investor in the investment fund.

An entity is consolidated from the point in time at which the Group obtains control through the relevant majority voting rights or other contractual agreements, and ceases to be consolidated when there is no longer any potential for it to be subject to the Group's control. Subsidiaries are not consolidated if they are of minor significance for the presentation of the Group's financial position and financial performance.

DekaBank reviews its consolidation decisions at the end of every financial year, as well as on other occasions if required. The requirement for the Group to consolidate an entity is reviewed if voting rights or other decision-making rights arise as a result of contractual agreements or changes in financing, ownership or capital structures.

Changes in the percentage ownership of a subsidiary that do not result in a loss of control should be regarded as transactions between shareholders and recognised within retained earnings accordingly.

If the Deka Group loses control of a subsidiary, the subsidiary's assets and liabilities, and the carrying value of any non-controlling interests in the subsidiary that may exist, are derecognised. Any consideration received and any shares in the subsidiary that are retained are recognised at fair value. If a difference arises as a result of this accounting treatment, and this difference is attributable to the parent company, it is presented as a profit or loss within consolidated profit or loss. Other changes in equity with no impact on profit or loss recorded in previous periods are transferred to consolidated net profit or, if required by other IFRSs, to retained earnings.

An associated company is a company over which DekaBank exercises a significant influence. As a rule, significant influence is presumed if DekaBank holds between 20.0% and 50.0% of the voting rights, either directly or indirectly. Potential voting rights – either currently exercisable or convertible – are also taken into account in assessing whether significant influence exists.

Where less than 20.0% of the voting rights are held, the assessment of whether or not significant influence exists includes other factors, such as whether the Deka Group has the option to be represented on the management or supervisory boards of the relevant company, or whether there are significant transactions between the Deka Group and the relevant company. Where such rights are held by other companies, it is possible that DekaBank may be unable to exercise significant influence, even if it holds more than 20.0% of the voting rights.

The only type of joint arrangements, as defined in IRFS 11, that exist at the Deka Group take the form of joint ventures. Joint ventures are defined as arrangements where the parties exercise joint control through voting rights held by each of them in equal proportion. Joint ventures and associates are included in the consolidated financial statements using the equity method, unless they are of minor significance for the presentation of the financial position and financial performance of the Group. Where a company valued under the equity method uses different accounting policies, appropriate adjustments are made in line with IFRS rules for consolidated financial statements by means of a separate calculation.

Subsidiaries are consolidated using the acquisition method, whereby all assets and liabilities of the subsidiary are recognised at fair value from the date of acquisition or the date the Group obtains a controlling interest. Any positive difference between the acquisition price and the fair value of the assets and liabilities acquired is reported under intangible assets as goodwill. Goodwill is tested for impairment at least once a year, or more frequently if there are indications of a possible decrease in value. If it is established that goodwill is impaired, the goodwill is written down to the lower value (see note [48]). Where third parties hold minority interests in the equity or earnings of subsidiaries of the Bank, these are reported separately as minority interests under equity and as profit attributable to non-controlling interests in the statement of profit or loss and other comprehensive income. Where third parties hold immaterial minority interests in investment funds and partnerships, and those third parties have a right to return their holdings at any time, the minority interests constitute debt capital from the Group's perspective and are thus reported under other liabilities.

Intra-Group receivables and liabilities are eliminated on consolidation, as are expenses, income and intercompany profits or losses arising from intra-Group financial and services transactions.

DekaBank's consolidated financial statements have been prepared in accordance with standard accounting policies throughout the Group.

Subsidiaries (affiliated companies and structured entities) included in the consolidated financial statements, subsidiaries (affiliated companies and structured entities) not included in the consolidated financial statements on grounds of immateriality, joint ventures, and associates are shown in the List of Shareholdings (see note [79]).

7 Scope of consolidation

The changes during 2017 resulted from one merger and one liquidation of a structured entity. A-DGZ-Fonds, Frankfurt am Main, was merged into A-DGZ 5-Fonds, Frankfurt am Main, with effect from 1 March 2017. Deka Treasury Corporates-Fonds, Frankfurt am Main, was liquidated on 21 June 2017.

Deka Real Estate Lending k.k. (in liquidation), Tokyo has submitted an application for winding-up, and was therefore deconsolidated with effect from 31 December 2017.

For detailed information on the composition of the Group, please see note [77] or the list of shareholdings in Note [79].

8 Financial instruments

All financial assets and liabilities, including all derivative financial instruments, are recognised on the statement of financial position pursuant to IAS 39. Spot purchases and sales (regular way contracts) are recognised on the settlement date. Valuation effects from financial instruments at fair value which have a settlement date after the reporting date are recognised in profit or loss and reported under other assets or other liabilities.

Financial assets are derecognised if the contractual rights arising from the asset lapse or have been transferred to parties outside of the Group, such that the risks and rewards have been substantially transferred. Financial liabilities are derecognised when the principal has been repaid in full.

Financial instruments are measured at fair value at the date of acquisition. The subsequent measurement of financial assets and liabilities is governed by the categories to which they are allocated at the date of acquisition, in line with IAS 39.

Financial assets or liabilities at fair value through profit or loss
Within this category, a distinction is drawn between financial instruments held for trading and financial instruments irrevocably designated at fair value through profit or loss at the date of acquisition. All financial assets and liabilities in both sub-categories are measured at fair value through profit or loss.

Financial instruments classified as held for trading are, firstly, instruments acquired with the intention of achieving profits from short-term price fluctuations or from the dealer's margin, and secondly, derivatives, except those that are hedging instruments.

The "designated at fair value" sub-category arises from the application of the fair value option in IAS 39. This sub-category comprises those financial assets and liabilities which are managed as a unit on a fair value basis in accordance with the Bank's documented risk management strategy. Both the risk and the results thereof are determined on the basis of fair values and reported to the Board of Management. Exercising the fair value option results in this case in the harmonisation of economic management with the presentation of the financial position and financial performance.

In addition, the fair value option is exercised for financial instruments in order to avoid the potential obligation to separate embedded derivatives and to eliminate or significantly reduce recognition or measurement discrepancies (accounting mismatches). These financial instruments are likewise designated at fair value at the date of acquisition.

Loans and receivables
Loans and receivables include all non-derivative financial instruments that have fixed or determinable payments and are not listed on an active market. A precondition for this is that the financial instruments are not allocated to the categories financial assets or liabilities at fair value through profit or loss or available for sale at the date of acquisition. Loans and receivables are measured at amortised cost. At each balance sheet date, and at other times if there are indications of potential impairment, loans and receivables are tested for impairment and any necessary provisions are recognised accordingly (see note [16]). Reversals to impairments are recorded through profit or loss. The maximum limit for the write-back is the amortised cost that would have arisen at the valuation date, had the impairment not occurred. Securities in the loans and receivables category are reported under financial investments.

Held to maturity
In principle, financial assets with fixed or determinable payments and a fixed term to maturity can be allocated to the held to maturity category. However, this is contingent on the financial instruments having been acquired with the intention and ability to hold them until maturity. Assets held to maturity are measured at amortised cost. At each balance sheet date, and at other times if there are indications of potential impairment, held-to-maturity financial instruments are tested for impairment and are written down where necessary (see note [19]). Reversals of impairments are recorded through profit or loss. The maximum limit for the write-back is the amortised cost that would have arisen at the valuation date, had the impairment not occurred. Securities in the held to maturity category are reported under financial investments.

Available for sale
The available for sale category includes all non-derivative financial instruments that have not already been allocated to other categories. Financial instruments in the available for sale category are measured at fair value. The valuation result is recognised in the statement of profit or loss and other comprehensive income under other comprehensive income (OCI). Where financial instruments are impaired as a result of a decline in creditworthiness, or upon realisation of the valuation result, the cumulative result previously reported under other comprehensive income (OCI) is reclassified from equity to profit or loss. Subsequent reversals of impairments that have previously been recorded are recognised in profit or loss for debt securities, and in other comprehensive income (OCI) in the case of equity instruments. Securities in the available for sale category are reported under financial investments.

Other liabilities

Other liabilities comprise financial liabilities, including securitised liabilities, unless designated at fair value through profit or loss. They are carried at amortised cost.

Loan commitments where the resultant loan receivables are to be sold, or for which the fair value option is to be exercised, are measured at fair value through profit or loss in accordance with IAS 39. All other loan commitments are recorded off the balance sheet in accordance with the provisions of IAS 37. If the creditworthiness analyses conducted indicate that a default by the borrower is probable, loan loss provisions are recognised based on the best estimate of the amount likely to be required.

Financial guarantees are reported using the net method, both at initial recognition and in subsequent measurements, in accordance with IAS 39.47c. At the time the contract is concluded, the financial guarantee is measured at fair value, which comprises the present value of the performance commitments that are expected to be assumed, offset by the present value of future fees. Under market terms this is normally zero.

9 Fair value measurement of financial instruments

Fair value is deemed to be the amount that would be received on the sale of an asset or paid for the transfer of a liability in an arm’s length transaction between market participants at the measurement date.

The fair value of financial instruments is determined on the basis of market prices or observable market data as at the reporting date and by using generally recognised valuation models.

Where no prices are available on an active market, valuation models are used that are considered appropriate for the financial instruments in question. Observable market data is always used as the basis where available. However, the availability of observable stock market prices, valid prices or market data varies from financial instrument to financial instrument and can change over time. Furthermore, the valuation models are periodically readjusted and validated as required. Depending on the financial instrument and market situation, it may be necessary to include assumptions and estimates made by the Bank in the valuation. The Bank is also responsible for selecting suitable modelling techniques, appropriate parameters and assumptions. The assumptions underlying financial valuation models can have a considerable effect on the fair value determined. Where there are no prices from active markets, the fair value is therefore deemed to be the model value as at the reporting date, which reflects a realistic estimate of how the market would be likely to value the financial instrument.

Where bid and ask prices are available for assets and liabilities, the provisions of IFRS 13 state that the price to be used to determine the fair value is that which best reflects the fair value within the bid-ask spread, with the use of mid-market pricing being an acceptable valuation convention. DekaBank generally measures financial instruments at mid-market prices. For illiquid financial instruments assigned to level three of the fair value hierarchy, bid-ask adjustments are taken into account.

Furthermore, the Bank takes credit value adjustments (CVAs) or debit value adjustments (DVAs) into consideration when measuring OTC derivatives in order to allow for its own credit risk or that of counterparties, unless these are already included elsewhere in the valuation model. If netting agreements exist for counterparties, the calculation is performed based on the net exposure at counterparty level. In other cases, the calculation is performed on the basis of the individual exposures. The Deka Group takes a funding valuation adjustment (FVA) into account, which represents the implicit market refinancing costs for uncollateralised derivative positions. The maturity structure of funding is thus considered to be an important component of fair value for uncollateralised derivatives.

10 Hedge accounting

In accordance with the provisions of IAS 39, derivatives are essentially classified as held for trading and measured at fair value. The valuation result and net interest income are reported in trading profit or loss. The Deka Group enters into derivatives both for trading purposes and hedging purposes. Derivatives entered into for hedging purposes may be treated as a hedge in accordance with IAS 39 (hedge accounting) under certain conditions. Derivative financial instruments that are used for economic hedging and do not meet the hedge accounting requirements of IAS 39 are treated in the same way as derivatives held for trading purposes and reported under financial assets or financial liabilities at fair value. Net interest income from economic hedging transactions is treated in the same way as interest from hedging derivatives within the meaning of IAS 39 (hedge accounting) and reported under net interest income. Valuation results from economic hedging derivatives are recorded in profit or loss on financial instruments designated at fair value.

In order to apply hedge accounting, the hedges must be documented individually at the date of their inception. The main items documented are the identification of the hedged item and the hedge, as well as the type of risk hedged. IAS 39 additionally requires proof of an effective hedge. The effectiveness of the hedging relationship must be determined for each hedge both at the start and during the term of the hedge.

As part of its asset-liability management, DekaBank uses fair value hedges as defined in IAS 39. Interest rate swaps used to hedge the lending, securities and issuing business against interest rate risks and which meet hedge accounting criteria are designated as hedging instruments. Microhedges may only be designated as hedges where the hedging instruments are able to offset one or more similar underlying transactions.

For fair value hedges, changes in the value of the underlying transaction that are attributable to the hedged risk are included in the result of fair value hedges along with the offsetting change in the fair value of the hedging transaction pursuant to IAS 39. Derivatives used for hedging are shown on the statement of financial position under positive or negative market values from derivative hedging instruments. In principle, the effectiveness of the fair value hedges is monitored on a daily basis using regression analysis. A hedge is deemed to be effective if, throughout the entire term of the hedge, the ratio of changes in value of the underlying and hedge transaction is between 0.80 and 1.25. If a hedge is no longer effective, it is cancelled. The prospective effectiveness measurement is performed using the critical term match method.

DekaBank also applies the rules on cash flow hedge accounting. The transactions underlying cash flow hedges are future cash flows from foreign currency loans that are recognised in profit or loss and are hedged against currency risks. Spot foreign exchange transactions with rolling currency swaps are designated as hedging instruments.

In a cash flow hedge, the effective portion of the change in fair value of the hedging derivative is reported in equity (revaluation reserve for cash flow hedges) through other comprehensive income (OCI). The hedging instruments are shown in the statement of financial position under positive or negative market values from derivative hedging instruments. The amounts recorded in the revaluation reserve are taken to profit or loss during the period in which the hedged cash flows are also recognised in profit or loss. The earnings components attributable to the ineffective portion of the hedge are recorded in profit or loss.

Daily reporting, which compares the expected future cash flows from the underlying transactions with the cash flows from the hedging transactions, is used to measure the prospective effectiveness. The cash flow hedge is deemed to be effective if the future cash flows from the hedged transactions at least offset the cash flows from the hedges. If the future cash flows change (e.g. through unscheduled repayments or interest payment dates on loans), the hedge is adjusted immediately to ensure that it remains effective. To demonstrate the effectiveness of hedges retrospectively, checks are conducted to determine whether the cash flows actually received correspond to the cash flows expected from the original hedge.

11 Structured products

Structured products are financial instruments composed of a host contract and one or more derivative financial instruments (embedded derivatives), whereby the embedded derivatives constitute an integral part of the contract and cannot be traded separately. For accounting purposes, under IAS 39 embedded derivatives must be separated from the host contract and accounted for as independent derivatives under the following conditions:

- the structured financial instrument is not already measured at fair value through profit or loss,
- the economic characteristics and risks of the embedded derivative do not show any close relationship with the economic characteristics and risks of the host contract, and
- the contractual standards of the embedded derivatives, if they were treated as independent financial instruments, would meet the criteria for a derivative.

In the Deka Group, financial assets required to be separated are recorded in the designated at fair value category and reported on the statement of financial position under financial assets at fair value. There were no banking book portfolios subject to separation at the reporting date. Structured trading issues are categorised as held for trading.

12 Currency translation

Currency translation in the Deka Group is carried out in accordance with IAS 21. All monetary foreign currency items are converted using the mean spot rate as at the reporting date. Non-monetary items are converted in accordance with their applicable valuation standard: Non-monetary items valued at amortised cost are converted at the rate applicable at the time of initial recognition (historical rate). Non-monetary items carried at fair value are converted at the year-end closing rate in the same way as monetary items. The gain or loss on currency translation is recognised in the statement of profit or loss and other comprehensive income under trading profit or loss (for the trading book portfolio) or in profit or loss from financial instruments designated at fair value (for the banking book portfolio). In principle, income and expenses are converted at the mean spot rate on the day on which they are recognised in profit or loss.

The financial statements of foreign subsidiaries prepared in a foreign currency are converted using the modified closing rate method. All assets and liabilities are converted at the rate prevailing on the reporting date. The items in the statement of profit or loss and other comprehensive income are converted using the arithmetic mean of the month-end exchange rates during the reporting year. With the exception of the revaluation reserve (converted using the rate prevailing on the reporting date) and the total profit or loss for the year (from the statement of profit or loss and other comprehensive income), equity is converted on the basis of historical exchange rates at the time of acquisition by the Group. The resulting translation differences are posted under equity in the currency translation reserve.

13 Genuine repurchase agreements and securities lending transactions

The Deka Group engages in both genuine securities repurchase agreements and securities lending transactions.

Genuine repurchase agreements are contracts transferring securities in return for consideration, in which it is agreed at the same time that the securities must subsequently be transferred back to the pledgor in return for payment of a sum agreed in advance. The pledgor continues to account for the transferred securities in the previous measurement category, as the principal risks and rewards of ownership are not transferred. A liability for the pledgor or a receivable for the pledgee is accounted for in the amount of the cash sum received or paid, respectively. Provided the IAS 32 netting criteria are met, receivables and liabilities from genuine repurchase agreements are offset against one another and recorded on the balance sheet on a net basis under assets due from banks or customers, or liabilities due to banks or customers.

The term “securities lending” means transactions where securities are transferred by the lender to the borrower with the obligation that the borrower, upon expiry of the agreed time, will transfer back securities of the same type, quality and quantity and will pay a consideration for the term of the loan. The securities loaned are treated for accounting purposes in the same way as genuine repurchase agreements. Collateral must generally be provided for securities lending transactions. Cash collateral is reported on the lender’s statement of financial position as a liability and in the balance sheet of the borrower as a receivable. Collateral provided by the borrower in the form of securities continues to be carried in the accounts of the borrower.

Lending and repurchase agreements are carried out under the conditions usual for the market. Transactions are either subject to the clearing conditions of the respective central counterparty, or are conducted using the standard German or international framework agreements. The securities transferred may in principle be resold or re-pledged by the recipient, provided no contractual agreement or regulation exists that would prevent this. In the event of the sale of borrowed securities or collateral, the resulting short position is reported under financial liabilities at fair value.

If transactions have been undertaken for trading purposes, income and expenses from repurchase agreements and from securities lending transactions are shown under trading profit or loss. Income and expenses from repurchase transactions that have not been undertaken for trading purposes are shown as part of net interest income.

Forward repos constitute forward contracts as per IAS 39 and are treated as derivatives from the trading date until the settlement date. The fair value of forward repos is disclosed in the statement of financial position under trading assets (positive market value) or trading liabilities (negative market value) as applicable. Positive and negative movements in the fair value of forward repos are disclosed under trading profit or loss.

14 Lease accounting

The decisive factor for the classification and consequently the accounting treatment of leases is not the legal title to the leased item but primarily the economic content of the lease agreement: if substantially all the risks and rewards associated with the legal ownership of the leased item are transferred to the lessee, the transaction will be classified as a finance lease. All other cases are deemed to be operating leases.

The Deka Group as lessee

The rental and lease agreements concluded by the Deka Group as lessee are operating leases. The property, plant and equipment to which the operating leases relate are accordingly not reported on the statement of financial position. The rental and lease instalments payable by the Deka Group are recorded as administrative expenses. Lease payments made in advance are recognised as prepayments and disclosed under other assets, in order to ensure a correct cut-off between accounting periods.

The Deka Group as lessor

As at the reporting date, there are no leases in place where companies in the Deka Group act as lessor.

15 Receivables

The items due from banks and due from customers principally include loans granted, non-negotiable bearer and registered bonds, demand deposits, call money and time deposits. Paid cash sums and cash collateral from genuine securities repurchase agreements or securities lending transactions are also reported as receivables. Under IAS 39, the amounts due are categorised as loans and receivables (see also note [8]). Amounts due that are classified as loans and receivables are reported on the statement of financial position at amortised cost less any loan loss provision. Income from interest payments and the sale of receivables is reported in net interest income, apart from interest payments in respect of receivables held for trading purposes (for portfolios in the trading book) which are reported in trading profit or loss. The measurement rules set out in note [10] apply to receivables that are subject to fair value hedges.

16 Provisions for loan losses

Provisions for loan losses for amounts due from banks and customers are deducted from the amounts shown under assets. For sureties and guarantees, provisions are recognised for the lending business.

If there is doubt that a receivable is recoverable, this is taken into account through the recognition of provisions for loan losses. If it is virtually certain that further payments will not be paid, the receivable is classified as irrecoverable. An irrecoverable receivable which has already been written down is written off utilising the provision for loan losses. If there is no specific provision, the receivable is written off directly and charged to profit or loss. Direct write-downs are also carried out if the Bank waives parts of a non-impaired receivable or sells a receivable for less than its carrying value.

Loan receivables are checked individually for impairment. If impairments are identified, specific provisions are established for the amounts in question. In the case of receivables for which there are no specific provisions, the default risk is taken into account by recognising collective provisions. The Deka Group does not create general provisions.

Specific provisions are recognised to take account of acute default risks if it is probable, based on fulfilment of impairment criteria, that not all contractually agreed payments of interest and principal can be made. Situations where potential impairments are assumed include the following:

- default in payment lasting more than 90 days;
- deferral or waiver of payment claims;
- initiation of enforcement measures;
- imminent insolvency or over-indebtedness;
- petition for or commencement of insolvency proceedings;
- failure of remedial measures.

The amount of the provision corresponds to the difference between the carrying value of a receivable and the present value of the estimated future cash flows (i.e. the recoverable amount), discounted using the original effective interest rate and taking into account the fair value of the collateral.

As the specific provision is based on the present value of estimated future cash flows, the change in present value will produce an “unwinding” effect as at the next reporting date (assuming that payment expectations remain the same). In accordance with IAS 39 AG 93, the change in present value must be recorded as interest income in the statement of profit or loss and other comprehensive income.

Interest on impaired loans continues to be reported in net interest income. As a result of the immaterial difference between the change in present value and the actual nominal interest receivable, interest income from unwinding is not recorded in profit or loss.

The collective provisions for creditworthiness risks reflect assumptions concerning impairments of the loan and securities portfolio that have already occurred at the reporting date but have not yet become known. The assessment base includes financial instruments in the loans and receivables and held to maturity categories. Collective provisions are determined taking borrower ratings, counterparty default history and current economic developments into account.

Transfer risk is taken into account by recognising collective provisions for country risks. Collective provisions for country risks are based on a number of factors, including an internal rating system that incorporates current and historical economic, political and other data and categorises countries by risk profile.

Impairments are recorded in profit or loss using provisions or direct write-downs. Reversals of provisions and income received on written-down receivables are also recorded in profit and loss. All of these items are reported in the statement of profit or loss and other comprehensive income under provisions for loan losses.

At DekaBank, securitised instruments are primarily categorised as designated at fair value and are measured at fair value through profit or loss accordingly. Securitised instruments allocated to the loans and receivables category are regularly tested for impairment. There were no indications of impairment as at the reporting date.

17 Financial assets and financial liabilities at fair value

Held for trading

Financial instruments in the held for trading sub-category are reported under financial assets and financial liabilities at fair value. These are financial instruments that have been acquired or issued with the intention of trading. All financial instruments in this category are measured at fair value through profit or loss. For derivatives with outstanding premium payments, the present value of the premium is netted against the market value of the derivative. For financial instruments that are not traded on a market, standard valuation procedures (in particular the present value method and option pricing models) are used to determine the balance sheet value. Unrealised valuation results and realised profits and losses are recorded through profit or loss in trading profit or loss. Interest income, dividend income, refinancing expenses and trading commission are also reported in trading profit or loss.

Designated at fair value

The line item financial assets or financial liabilities at fair value also includes other financial instruments allocated on initial recognition to the designated at fair value sub-category. Derivative financial instruments from economic hedges that do not meet the criteria for hedge accounting are also reported in this sub-category. Effects from fair value changes and commission are recorded in profit or loss on financial instruments designated at fair value. Interest and dividend income are reported in net interest income along with refinancing expenses and income from reinvestments.

18 Positive and negative market values from derivative hedging instruments

This item comprises hedging derivatives as defined in IAS 39 (hedge accounting), with positive market values recorded as assets and negative market values recorded as liabilities on the statement of financial position.

Hedging derivatives are measured at fair value using accepted valuation models based on observable measurement parameters. The valuation results for fair value hedges under hedge accounting rules are recorded through profit or loss under the item profit or loss from fair value hedges in accordance with IAS 39.

In a cash flow hedge, the effective portion of the change in fair value of the hedging derivative is reported in other comprehensive income (revaluation reserve for cash flow hedges). The amounts recorded in the revaluation reserve are taken to profit or loss, under profit or loss on financial instruments measured at fair value, during the period in which the hedged cash flow is also recognised in profit or loss.

19 Financial investments

Financial investments mainly include negotiable bonds and other fixed-interest securities, shares and other non-fixed-interest securities, holdings in unconsolidated subsidiaries, joint ventures and associated companies, and other equity investments.

The financial investments line item comprises financial instruments in the loans and receivables, held to maturity and available for sale categories. Securities shown under loans and receivables or as held to maturity are reported at amortised cost. Financial assets in the available for sale category are reported at fair value through other comprehensive income. In 2016, shares in unlisted affiliated companies and other equity investments for which the fair value cannot be determined with reference to an active market were measured at amortised cost in accordance with IAS 39.46c. In 2017, suitable valuation models for each group of equity investments were reviewed in preparation for the implementation of the new accounting rules under IFRS 9. Previous estimates were revised in anticipation of the requirement under IFRS 9 for equity investments to be measured at fair value. The assumptions and parameters underlying the estimates are based on the reasonable exercise of judgement by management. Where different valuation models lead to a range of different potential valuations, management may choose which model to adopt on the basis of its own judgement. Effects of the change in the accounting estimate are disclosed in Note [47].

Income from bonds, including that from the unwinding of premiums and discounts, as well as dividend income and current income from unconsolidated equity investments in affiliated companies, are posted as net interest income. Realised gains and losses are recorded in profit or loss on financial investments. After taking into account deferred taxes, valuation results from financial instruments in the available for sale category are presented under other comprehensive income (OCI).

Financial investments are regularly subject to an impairment test. A potential impairment on tradable securities in the loans and receivables, held to maturity and available for sale categories exists in principle if, as a result of a deterioration in the creditworthiness of the issuer, the market value of an instrument at the reporting date has fallen significantly below its acquisition cost or if the drop in market value is long term.

If an impairment is established, a provision must be recognised, taking account of the expected cash flows from recoverable collateral (guarantees, credit default swaps and others). Impairments are recorded through profit or loss under the item profit or loss on financial investments. For debt instruments, if the reasons for a previously recognised provision no longer apply, an impairment reversal must be recognised through profit or loss and presented under profit or loss on financial investments. In contrast, increases in the value of equity instruments that are available for sale are recognised in the revaluation reserve with no impact on profit or loss.

If the result of the impairment test shows there is no need to recognise a specific provision, the corresponding financial investments in the loans and receivables and held to maturity categories must be taken into account in the assessment basis for the collective provisions. As with loans, collective provisions for creditworthiness risks on financial investments are determined using the expected loss method. No collective provisions are recognised for financial investments in the available for sale category.

Holdings in associates and joint ventures are also recorded under financial investments.

Shares in associates and joint ventures are recognised in the consolidated statement of financial position at historical cost at the date of establishment or when significant influence was acquired. In subsequent years, the equity value shown in the statement of financial position is adjusted by the proportionate changes in equity of the associated company. The Group's share of the annual profit of the associate is reported in profit or loss on financial investments. Gains and losses on transactions with companies valued under the equity method are eliminated pro rata, based on the percentage shareholding, as part of the elimination of intercompany profits or losses. In the event of downstream delivery, i.e. if an asset ceases to be fully consolidated, the adjustment is carried out against the carrying value of the equity investment under the equity method.

If there are indications of an impairment to a holding in a company valued in accordance with the equity method, an impairment test is performed and, if necessary, the carrying value of the holding is written down. Impairment losses are reversed if the reasons for impairment no longer apply. In such a case, the carrying value is written back up to the recoverable amount, but capped at the amount of the carrying value that would have been applicable had the impairment losses not occurred in the previous periods. Impairment write-downs and write-backs are recognised through profit or loss under profit or loss on financial investments.

20 Intangible assets

Intangible assets comprise goodwill acquired in business combinations, software that has been purchased or developed in-house, and other intangible assets.

Goodwill arises on the acquisition of subsidiaries if the cost of acquisition exceeds the Group's share of the acquired entity's net assets. Goodwill is recognised at cost at the date of acquisition and is not subject to regular amortisation. In subsequent years, it is valued at cost less all accumulated impairment losses. Goodwill is subject to an impairment test each year, or more frequently if there are indications of a possible loss of value. For the purposes of impairment testing, goodwill is allocated to a cash-generating unit. If an impairment is identified during the test, the goodwill is written down.

Other intangible assets acquired as part of the business combination are amortised on a straight-line basis over their expected useful lives. Where there are signs that the expected benefit is no longer in evidence, the asset is written down.

Intangible assets acquired in return for consideration are stated at amortised cost. Software developed in-house is capitalised at cost where it meets the recognition criteria under IAS 38. The capitalised costs primarily include personnel expenses and expenses for external services. Software developed in-house or purchased is, in principle, amortised over four years on a straight-line basis. Where there are signs that the expected benefit is no longer in evidence, the asset is written down.

Scheduled amortisation and impairment losses on intangible assets are recorded under administrative expenses in the statement of profit or loss and other comprehensive income.

21 Property, plant and equipment

In addition to plant and equipment, the property, plant and equipment line item includes technical equipment and machinery. Property, plant and equipment are stated at amortised cost. Subsequent expenditure on property, plant and equipment is capitalised if an increase in the future potential benefit can be assumed. All other subsequent expenditure is recorded as an expense.

Items of property, plant and equipment are depreciated on a straight-line basis over the following periods in accordance with their estimated useful economic lives:

	Useful life in years
Plant and equipment	2 – 15
Technical equipment and machines	2 – 10

For materiality reasons, capital assets coming under section 6 (2) of the German Income Tax Act (*Einkommensteuergesetz* – EStG) are written off in the year of acquisition in accordance with tax regulations.

Impairment losses in excess of amortised cost are immediately recognised as write-downs. Scheduled depreciation and write-downs for impairment are recorded under administrative expenses, while gains and losses on the disposal of property, plant and equipment are recorded as other operating profit.

22 Other assets

This balance sheet item includes assets which, when considered separately, are of minor importance and cannot be allocated to any other line item on the statement of financial position. Receivables are measured at amortised cost. Positive valuation effects from regular way financial instruments measured at fair value with settlement dates after the reporting date are also reported under other assets.

23 Income taxes

As DekaBank is treated for tax purposes as an atypical silent partnership, DekaBank only incurs corporation tax to the extent that taxable income is not allocated to atypical silent partners. Taking into account the Bank's existing own shares in subscribed capital (acquired in the first half of 2011), the proportion of taxable income attributable to atypical silent partners is 45.6%. This results in a combined tax rate of 24.68% for the companies in the DekaBank fiscal group. However, in return for the allocation of the tax base, atypical silent partners are entitled to reclaim from Deka Bank the corporation tax expense attributable to them (45.6% of 15.0% corporation tax plus solidarity surcharge thereon, in total 7.22%). This means that DekaBank pays the atypical silent partners an amount equal to the tax expense and effectively bears this part of the tax expense, as well. Thus, in order to achieve better comparability, the portion of the corporation tax expense attributable to the atypical silent partners is also reported as tax expense. The applicable combined tax rate (trade tax plus corporation tax and solidarity surcharge) therefore totals 31.90%.

Current income tax assets or liabilities are calculated at the current tax rates expected for payments to or refunds from the tax authorities.

Deferred income tax assets and liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities on the IFRS statement of financial position and the tax statement of financial position. They are calculated based on the tax rate projected for the date they will be reversed. Deferred tax liabilities are posted for temporary differences where a tax charge will arise on reversal. If tax savings are projected when temporary differences are reversed and it is probable they will be utilised, deferred tax assets are recorded. Actual income tax assets and liabilities and deferred tax assets and liabilities are stated net in each case, without discounting. Deferred taxes on temporary differences that have arisen with no effect on profit or loss are recorded in the revaluation reserve such that they also have no impact on profit or loss.

For tax loss carry-forwards, deferred tax assets are recorded if it is probable that they will be utilised. Loss carry-forwards in Germany can be carried forward for an unlimited period. Foreign loss carry-forwards that cannot be carried forward for an unlimited period are disclosed according to their date of expiry. Deferred tax assets arising from temporary differences and loss carry-forwards are tested for impairment at each reporting date.

24 Liabilities

Financial liabilities are carried in the accounts at amortised cost if they come under the other liabilities category. Liabilities in the category liabilities at fair value through profit or loss are measured at fair value through profit or loss. The valuation guidelines described in note [10] apply to liabilities which have been designated as hedges in the context of hedge accounting.

25 Provisions for pensions and similar commitments

The Deka Group offers employees various types of retirement pension benefits. These include both defined contribution plans and defined benefit plans.

For defined contribution plans, a set amount is paid to an external provider (these include Sparkassen Pensionskasse, BVV and direct pension insurance policies). In accordance with IAS 19, the Deka Group does not recognise any provisions for such commitments.

For defined benefit plans, the extent of the obligation is calculated by independent actuaries. In these cases, at each closing date the present value of the pension entitlements earned (defined benefit obligation) is determined using the projected unit credit method and compared with the fair value of the plan assets. If the calculation results in a potential asset, recognition of the asset is restricted to the present value of any economic benefit. The net interest expense (income) on the net liability (net asset) arising from defined benefit obligations to be recognised in profit or loss in the current reporting period is determined by applying the actuarial interest rate that was used to measure defined benefit obligations at the beginning of the period. Expected changes in the net liability (net asset) occurring during the year as a result of contribution and benefit payments are taken into account. Revaluations of the net liability (net asset) are recognised directly in other comprehensive income (OCI). The revaluation includes actuarial gains and losses, income from plan assets (excluding interest) and the effect of any asset ceiling (excluding interest).

As well as final salary plans and general contribution schemes, the defined benefit obligations of the Deka Group include unit-linked defined contribution plans. The final salary plans and general contribution schemes involve both individual commitments for members of the Board of Management and executive staff, and collective commitments for the general workforce. These guarantee lifelong retirement, survivors' and disability pensions. Under the unit-linked defined contribution pension commitments, contributions are made by both employer and employee and are invested mainly in the Deka Group's investment funds. When benefits become due, the employee is entitled either to a contractually agreed minimum benefit or to the market value of the underlying investment fund units, if higher.

Plan assets were created for the company retirement pensions of the Deka Group in the form of a contractual trust arrangement (CTA). These are held by a legally independent trustee – Deka Trust e.V. The plan assets for the unit-linked defined contribution plans consist primarily of fund assets allocated to each individual employee and other assets to cover the biometric risks arising from benefits becoming due early and the subsequent financing risk. In addition, commitments under final salary plans and general contribution schemes were funded through the creation of ring-fenced plan assets using a CTA. This section of the plan assets is invested in a special fund with an investment strategy based on integrated asset-liability assessment.

Commitments similar to pensions include commitments in relation to early retirement, transitional payments and obligations to pay other allowances. These are also valued actuarially and a provision is created in the amount of the present value of the commitment. When accounting for commitments similar to pensions, in principle no actuarial profits or losses arise and the provision shown in the financial statements therefore corresponds to the present value of the commitment. Furthermore, employees of the Deka Group also have the option of paying into working hours accounts. These accounts are maintained in money and, like the defined benefit plans, are covered by plan assets in Deka Trust e.V. The amount carried on the statement of financial position is the difference between the extent of the commitments and the fair value of the plan assets.

26 Other provisions

Provisions for uncertain liabilities to third parties and imminent losses from pending transactions are recognised on a best estimate basis in the amount of the expected liability. Risks and uncertainties are taken into account when determining these provisions, as well as all relevant knowledge relating to the liability. If the interest effect has a material impact, long-term provisions are discounted using a market rate appropriate to the residual term and stated at the present value of the liability. A pre-tax discount rate is used that reflects current market expectations relating to the interest effect and the risks specific to the liability. Allocations and reversals are carried out via the line item in the statement of profit or loss and other comprehensive income that corresponds to the provision in terms of content. Provisions for creditworthiness risks in off-balance sheet lending transactions are charged to provisions for loan losses and reversed in the same line item.

27 Other liabilities

Other liabilities include liabilities and accruals which are not individually material and cannot be allocated to any other line item on the statement of financial position. They are measured at amortised cost or at their settlement amount.

28 Subordinated capital

Subordinated capital comprises subordinated liabilities, profit-participation instruments and typical silent capital contributions. In the event that DekaBank becomes insolvent or is liquidated, subordinated capital may only be repaid after all non-subordinated creditors have been repaid. In accordance with the provisions of IAS 32, subordinated capital must be recognised as debt because of the contractual termination right associated with it, regardless of the likelihood that this right will be exercised. Subordinated capital is in principle shown at amortised cost. For subordinated liabilities that are hedged against interest rate risks by a fair value hedge as set out under IAS 39, changes in fair value attributable to interest rate risks must also to be taken into consideration.

29 Atypical silent capital contributions

Atypical silent capital contributions are shown on the balance sheet as equity under German commercial law. Under IAS 32, however, atypical silent capital contributions must be treated as debt, since atypical silent partners have a contractual termination right.

Atypical silent capital contributions are stated on the statement of financial position at nominal value. The dividend distribution on subscribed capital is used as the basis for calculating the distribution to atypical silent partners. There is also an entitlement to reclaim amounts in respect of taxation. The distribution is disclosed as a separate line item – interest expenses for atypical silent capital contributions – below the total of profit or loss before tax. The amount that may be drawn in respect of tax is disclosed as a component of the tax expense (see note [23]).

30 Equity

Subscribed capital is the capital paid in by shareholders in accordance with the Bank's statutes. Capital reserves include premiums from the issue of shares in the company in accordance with the provisions of the Bank's statutes.

The sub-heading additional capital components comprises Additional Tier 1 bonds issued by the Bank. In accordance with the provisions of IAS 32, Additional Tier 1 bonds are recognised on the statement of financial position as equity capital, since they have no maturity date, payments of interest can be totally or partially at the discretion of the issuer and the creditor has no cancellation entitlement.

Reserves from retained earnings are broken down into statutory reserves, reserves required under the Bank's statutes and other retained earnings. Other reserves from retained earnings include retained profits from previous years. In addition, the effects of applying IFRS for the first time are also shown in other reserves from retained earnings, with the exception of valuation effects for financial instruments in the available for sale category.

Revaluations of net liabilities (net assets) arising from defined benefit obligations, including the associated deferred taxes, are shown within the revaluation reserve. Revaluations consist mainly of actuarial gains and losses, and income from plan assets (excluding interest).

The effects of fair value measurement on financial instruments in the available for sale category are also recognised in the revaluation reserve through other comprehensive income, after taking account of the applicable deferred taxes. Gains or losses are not recorded through profit or loss until the asset is sold or written down due to impairment.

The effective portion of the change in the fair value of hedging instruments arising from cash flow hedges is also reported in the revaluation reserve after taking account of any applicable deferred tax. The amounts recorded in the revaluation reserve are taken to profit or loss during the period in which the hedged future cash flows are also recognised in the statement of profit or loss and other comprehensive income. The earnings components attributable to the ineffective portion of the change in fair value of hedging instruments are recorded in profit or loss.

Differences arising on the conversion of the financial statements of foreign subsidiaries prepared in a foreign currency are posted to the currency translation reserve.

Minority interests, if any, are disclosed as a separate sub-item under equity.

Notes to the statement of profit or loss and other comprehensive income

31 Net interest income

In addition to interest income and expenses, this item includes the pro-rata unwinding of premiums and discounts on financial instruments. Net interest income from items in the trading book and the associated refinancing expenses are not included as they are reported in trading profit or loss. In accordance with IAS 32, silent capital contributions are classified as debt and the payments to typical silent partners are reported in interest expenses.

€m	2017	2016	Change
Interest income from			
Lending and money market transactions	435.9	458.0	–22.1
Interest rate derivatives (economic hedges)	149.0	153.4	–4.4
Fixed-interest securities and debt register claims	142.4	152.6	–10.2
Hedging derivatives (hedge accounting)	58.8	63.9	–5.1
Negative interest from liabilities	76.3	45.0	31.3
Current income from			
Shares and other non fixed-interest securities	20.9	16.7	4.2
Equity investments and shares in affiliated companies	2.0	2.1	–0.1
Total interest income	**885.3**	**891.7**	–6.4
Interest expenses for			
Interest rate derivatives (economic hedges)	276.2	278.6	–2.4
Liabilities	255.5	284.5	–29.0
Securitised liabilities	77.0	69.7	7.3
Hedging derivatives (hedge accounting)	28.7	31.0	–2.3
Subordinated liabilities and profit participation capital	35.7	36.3	–0.6
Typical silent capital contributions	2.9	8.0	–5.1
Negative interest on money-market transactions and fixed-interest securities	85.9	47.4	38.5
Total interest expenses	**761.9**	**755.5**	6.4
Net interest income	**123.4**	**136.2**	–12.8

A gain of €10.5m on the disposal of receivables (previous year: €18.9m) is included under interest income from lending and money market transactions.

In the reporting year, interest amounting to €10.4m (previous year: €16.1m) was collected on impaired loans and securities.

In total, interest income of €564.0m (previous year: €532.3m) and interest expenses of €354.5m (previous year: €363.8m) were recorded in respect of financial assets and liabilities not measured at fair value.

32 Provisions for loan losses

The breakdown of provisions for loan losses in the statement of profit or loss and other comprehensive income is as follows:

€m	2017	2016	Change
Allocations to provisions for loan losses	–68.0	–222.1	154.1
Reversals of provisions for loan losses	38.0	26.4	11.6
Direct write-downs on receivables	–0.1	0.0	–0.1
Income on written-down receivables	1.6	1.1	0.5
Provisions for loan losses	**–28.5**	**–194.6**	166.1

Movement in the risk provision for securities in the loans and receivables and held to maturity categories is reported under profit or loss on financial investments (see note [37]).

33 Net commission income

€m	2017	2016	Change
Commission income from			
Investment fund business	2,093.5	1,834.9	258.6
Securities business	145.1	122.0	23.1
Lending business	50.8	44.4	6.4
Other	21.4	24.0	–2.6
Total commission income	**2,310.8**	**2,025.3**	285.5
Commission expenses for			
Investment fund business	1,049.3	882.1	167.2
Securities business	38.7	17.6	21.1
Lending business	16.8	16.1	0.7
Other	4.2	2.3	1.9
Total commission expenses	**1,109.0**	**918.1**	190.9
Net commission income	**1,201.8**	**1,107.2**	94.6

Commission income is measured at the fair value of the consideration received or receivable. Fees from services and performance-related commission are recognised in profit or loss when the service has been rendered or once significant performance criteria have been met. Fees for services that are rendered over a particular period are recognised accordingly over the period during which the service is rendered.

Commission income from investment fund business essentially comprises management fees, entry charges and sales commission. In addition, performance-related remuneration and income from lump sum costs are also reported in this figure. Commission expenses for the investment fund business largely comprise payments to sales partners. The vast majority of net commission income stems from portfolio-based fees. Net commission income from investment fund business therefore primarily comprises fees in accordance with IFRS 7.20c (ii).

34 Trading profit or loss

Trading profit or loss comprises sale and valuation results as well as commission from financial instruments in the “held for trading” sub-category. Net interest income from derivative and non-derivative financial instruments in the trading book, together with any related refinancing expenses, are also reported under this item.

€m	2017	2016	Change
Sale and valuation results	287.8	249.0	38.8
Net interest income and current income from trading transactions	–78.2	23.0	–101.2
Commission on trading transactions	–19.3	–19.3	0.0
Trading profit or loss	**190.3**	**252.7**	–62.4

35 Profit or loss on financial instruments designated at fair value

This item is principally made up of gains or losses on the disposal and measurement of financial instruments designated at fair value and gains or losses on derivatives in the banking book. In contrast, interest and dividend income is reported in net interest income, along with refinancing expenses, reinvestment profits from financial instruments within this sub-category and interest income or expenses from derivatives in the banking book.

€m	2017	2016	Change
Sale and valuation results	33.9	155.0	–121.1
Foreign exchange profit or loss	–6.6	–10.0	3.4
Commission	–0.1	–0.1	0.0
Profit or loss on financial instruments designated at fair value	**27.2**	**145.0**	–117.8

In the reporting period, the valuation result from financial instruments designated at fair value included a net expense of €4.8m (previous year: income of €6.8m) arising from changes in the creditworthiness of own issues. It also included an expense of €0.2m (previous year: expense of €4.1m) arising from changes in the creditworthiness of receivables designated at fair value.

The Bank calculates the change in value arising from changes in creditworthiness as the difference between the result based on full fair value measurement and the result from measurement based on swap rates for the relevant issue currency, plus the spread which applied at the time of sale of the issue in the market for similar liabilities. The valuation result arising from changes in creditworthiness during the reporting period is calculated as the movement in this difference relative to the nominal value as at the reporting date.

36 Profit or loss from fair value hedges according to IAS 39

Changes in the value of the underlying hedged transactions, together with changes in the fair value of the hedges, are reported as profit or loss from fair value hedges in accordance with IAS 39. The profit or loss from these hedges is composed as follows:

€m	**2017**	**2016**	Change
Valuation result from hedged underlying transactions	14.3	–85.7	100.0
Valuation result from hedging derivatives	–14.9	88.1	–103.0
Profit or loss from fair value hedges according to IAS 39	**–0.6**	**2.4**	–3.0

37 Profit or loss on financial investments

€m	**2017**	**2016**	Change
Sale and valuation results from securities	0.0	–1.6	1.6
Sale and valuation results from shareholdings	4.7	–0.6	5.3
Reversal of/allocation to risk provision for securities	10.7	–15.2	25.9
Write-downs arising from impairment of equity-accounted companies	–	–	–
Write-backs of impairment losses previously recorded for equity-accounted companies	–	2.6	–2.6
Net income from equity-accounted companies	11.2	1.3	9.9
Profit or loss on financial investments	**26.6**	**–13.5**	40.1

38 Administrative expenses

Administrative expenses comprise personnel expenses, other administrative expenses and depreciation and amortisation. The breakdown of the items is as follows:

€m	2017	2016	Change
Personnel expenses			
Wages and salaries	422.7	397.3	25.4
Social security contributions	51.8	48.8	3.0
Allocations to/reversals of provisions for pensions and similar commitments	45.2	38.9	6.3
Expenses for defined contribution plans	3.5	2.7	0.8
Other expenses for retirement pensions and benefits	1.1	0.6	0.5
Total personnel expenses	**524.3**	**488.4**	35.9
Other administrative expenses			
Consultancy expenses	108.8	88.1	20.7
Computer equipment and machinery	70.9	75.8	–4.9
Rentals and expenses for buildings	56.9	56.6	0.3
Marketing and sales expenses	45.5	40.3	5.2
IT information services	41.1	39.2	1.9
Subscriptions and fees	36.8	38.3	–1.5
Bank levy	35.3	34.4	0.9
Lump sum fees for fund administration services	28.1	28.8	–0.7
Postage/telephone/office supplies	20.7	12.7	8.0
Other administrative expenses	52.1	49.4	2.7
Total other administrative expenses	**496.2**	**463.6**	32.6
Depreciation of intangible assets	14.8	15.8	–1.0
Depreciation of property, plant and equipment	4.5	2.3	2.2
Total depreciation	**19.3**	**18.1**	1.2
Administrative expenses	**1,039.8**	**970.1**	69.7

Other administrative expenses primarily include expenses for the annual accounts and auditing costs as well as motor vehicle and travel costs.

Administrative expenses include payments of €49.8m (previous year: €49.1m) on rental and lease agreements for buildings, vehicles, and plant and equipment (operating leases) where DekaBank is the lessee. The following minimum lease payments are payable under these leases in the coming years:

€m	2017	2016	Change
Up to 1 year	47.2	51.4	–4.2
Between 1 and 5 years	149.1	160.8	–11.7
More than 5 years	56.1	89.7	–33.6

39 Other operating profit

The breakdown of other operating profit is as follows:

€m	2017	2016	Change
Income from repurchased debt instruments	**–7.7**	**–22.7**	15.0
Other operating income			
Reversal of other provisions	0.5	24.9	–24.4
Rental income	1.3	1.2	0.1
Other income	43.2	81.1	–37.9
Total other operating income	**45.0**	**107.2**	–62.2
Other operating expenses			
Restructuring expenses	6.3	18.6	–12.3
VAT on provision of intra-Group services	16.0	17.0	–1.0
Other taxes	0.3	1.3	–1.0
Other expenses	34.6	23.4	11.2
Total other operating expenses	**57.2**	**60.3**	–3.1
Other operating profit	**–19.9**	**24.2**	–44.1

Repurchases of the Bank's own registered and bearer bonds as well as promissory note loans raised led to a reduction in the liability (net disclosure). Repurchases of own issues result in the realisation of a gain or loss in the amount of the difference between the repurchase price and the book price.

The restructuring expenses are mainly due to the establishment of restructuring provisions for the strategic reorganisation of LBB-INVEST.

40 Income taxes

This item includes all domestic and foreign taxes levied on the basis of the total profit for the year. Income tax expenses comprise the following:

€m	2017	2016	Change
Current tax expense in financial year	140.6	179.8	–39.2
Current tax expense/income (–) in previous years	0.1	–6.3	6.4
Current tax expense	**140.7**	**173.5**	–32.8
Effect of origination and reversal of temporary differences	21.8	–24.3	46.1
Effects of changes in tax legislation and/or tax rate	–0.8	–1.4	0.6
Effect of initial recognition of deferred tax on loss carry-forwards	–	–0.4	0.4
Prior-year deferred tax income	–3.1	16.9	–20.0
Deferred tax expense	**17.9**	**–9.2**	27.1
Total income tax expense	**158.6**	**164.3**	–5.7

The rate of tax that applies in Germany comprises a corporation tax rate of 15.0% plus a solidarity surcharge on this of 5.5% and the applicable rate of trade tax. As DekaBank is treated for tax purposes as an atypical silent partnership, this results in a combined tax rate of 24.68% (previous year: 24.68%) for the companies in the DekaBank tax group. Furthermore, atypical silent partners have a right to withdraw the portion of corporation tax expense attributable to them, which is equal to 7.22%. A tax rate of 31.90% (previous year: 31.90%) is therefore applied for the measurement of deferred taxes (see note [23]). This tax rate is assumed as the expected tax rate in the reconciliation statement below. As in the previous year, the other domestic companies determined their deferred taxes at a tax rate of around 32%.

The foreign companies determine deferred taxes using the tax rate for the country in question. The tax rate for the DekaBank Luxembourg tax group amounts to 26.01% (previous year: 27.08%). With effect from 1 January 2018 the corporate tax rate in Luxembourg was reduced from 19.0% to 18.0%. Taking into account the surcharge for the unemployment fund and trade tax, this results in a new combined tax rate of 26.01%, which was used as the basis for determining deferred taxes. This led to an imputed tax reduction of €0.8m (previous year: €1.5m).

The origination or reversal of temporary differences led to deferred tax expenses of €21.8m (previous year: €24.3m income). The current tax expense for previous years predominantly relates to DekaBank (€0.3m). This amount is offset by a receipt of €0.2m in relation to the Luxembourg companies. Prior-year deferred tax income relates predominantly to adjustments made in relation to tax audits.

The following statement reconciles total profit before tax with the tax expense:

€m	**2017**	**2016**	Change
Total of profit or loss before tax	480.5	489.5	–9.0
x income tax rate	31.90%	31.90%	0.0
= Anticipated income tax expense in financial year	**153.3**	**156.2**	–2.9
Increase from taxes due to non-deductible expenses	16.8	15.6	1.2
Decrease from taxes on tax-exempt income	0.4	16.1	–15.7
Withholding tax	0.1	0.3	–0.2
Tax effect of special funds	–0.5	–0.1	–0.4
Effects of tax rate changes	–0.8	–1.5	0.7
Tax effect of holdings accounted for under the equity method	–3.5	1.5	–5.0
Effects of differing effective tax rates	–3.5	–2.8	–0.7
Tax effects from past periods	–3.1	10.6	–13.7
Other	0.2	0.7	–0.5
Tax expenses according to IFRS	**158.6**	**164.3**	–5.7

Non-deductible expenses primarily comprise the effect of the non-deductible German bank levy.

The tax effect of holdings valued under the equity method concerns a write-back in relation to an associate company which has been in liquidation since 1 January 2017.

In the IFRS consolidated financial statements, the servicing of AT1 bonds is treated as remuneration for capital, and is offset directly against reserves. From a taxation point of view, the interest is accrued and is deductible. In order to align the figures with the treatment in the IFRS consolidated financial statements, the corresponding imputed tax benefit of €9.1m was recorded directly in equity. If the figure had been posted to profit or loss, the tax burden would have been 1.89% lower.

Notes to the statement of financial position

41 Cash reserves

The breakdown in cash reserves is as follows:

€m	31 Dec 2017	31 Dec 2016	Change
Cash on hand	0.8	4.9	–4.1
Balances with central banks	10,038.8	3,682.7	6,356.1
Total	**10,039.6**	**3,687.6**	6,352.0

The required minimum reserve was maintained at all times during the reporting year and amounted to €228.2m at the reporting date (previous year: €231.5m).

42 Due from banks

€m	31 Dec 2017	31 Dec 2016	Change
Domestic banks	13,682.6	14,049.0	–366.4
Foreign banks	12,714.1	6,605.1	6,109.0
Due from banks before risk provisions	**26,396.7**	**20,654.1**	5,742.6
Provisions for loan losses	–0.3	–0.2	–0.1
Total	**26,396.4**	**20,653.9**	5,742.5

DekaBank paid €17.3bn (previous year: €8.8bn) for genuine repurchase agreements and collateralised securities lending transactions as pledgee and pledgor respectively.

43 Due from customers

€m	31 Dec 2017	31 Dec 2016	Change
Domestic borrowers	4,434.9	5,230.5	–795.6
Foreign borrowers	16,359.1	17,943.5	–1,584.4
Due from customers before risk provisions	**20,794.0**	**23,174.0**	–2,380.0
Provisions for loan losses	–143.5	–333.1	189.6
Total	**20,650.5**	**22,840.9**	–2,190.4

DekaBank paid €3.6bn (previous year: €5.8bn) for genuine repurchase agreements and collateralised securities lending transactions as pledgee and pledgor respectively.

44 Provisions for loan losses

Default risks in the lending business are recognised through the creation of specific and collective provisions and through the creation of provisions for off-balance sheet liabilities. The collective provisions for credit risks reflect assumptions concerning impairments in the loan portfolio that have already occurred but are not yet known as at the reporting date. Transfer risk is taken into account by recognising collective provisions for country risks.

€m	31 Dec 2017	31 Dec 2016	Change
Provisions for loan losses – due from banks			
Specific provisions	–	–	–
Collective provisions for creditworthiness risks	0.3	0.2	0.1
Provisions for loan losses – due from customers			
Specific provisions	130.6	310.6	– 180.0
Collective provisions for creditworthiness risks	12.9	17.5	– 4.6
Collective provisions for country risks	–	5.0	– 5.0
Total	**143.8**	**333.3**	– 189.5

The following table shows the movement in provisions for loan losses:

€m	Opening balance 1 Jan 2017	Additions	Allocation	Utilisation	Reversal	Disposals	Reclassi-fications	Cur-rency effects	Closing balance 31 Dec 2017
Provisions for loan losses – due from banks									
Specific provisions	–	–	–	–	–	–	–	–	–
Collective provisions for creditworthiness risks	0.2	–	0.1	–	–	–	–	–	0.3
Sub-total	**0.2**	**–**	**0.1**	**–**	**–**	**–**	**–**	**–**	**0.3**
Provisions for loan losses – due from customers									
Specific provisions	310.6	–	67.1	200.5	28.4	–	–	–18.2	130.6
Collective provisions for creditworthiness risks	17.5	–	0.1	–	4.7	–	–	–	12.9
Collective provisions for country risks	5.0	–	–	–	4.9	–	–	–0.1	–
Sub-total	**333.1**	**–**	**67.2**	**200.5**	**38.0**	**–**	**–**	**–18.3**	**143.5**
Provisions for credit risks									
Specific risks	0.3	–	0.4	–	–	–	–	–	0.7
Portfolio risks	0.7	–	0.3	–	–	–	–	–	1.0
Sub-total	**1.0**	**–**	**0.7**	**–**	**–**	**–**	**–**	**–**	**1.7**
Total	**334.3**	**–**	**68.0**	**200.5**	**38.0**	**–**	**–**	**–18.3**	**145.5**

€m	Opening balance 1 Jan 2016	Additions	Allocation	Utilisation	Reversal	Disposals	Reclassi-fications	Cur-rency effects	Closing balance 31 Dec 2016
Provisions for loan losses – due from banks									
Specific provisions	2.1	–	–	1.4	0.6	–	–	–0.1	0.0
Collective provisions for creditworthiness risks	0.3	–	–	–	0.1	–	–	–	0.2
Sub-total	**2.4**	**–**	**–**	**1.4**	**0.7**	**–**	**–**	**–0.1**	**0.2**
Provisions for loan losses – due from customers									
Specific provisions	185.2	0.3	218.4	95.8	5.9	–	–1.1	9.5	310.6
Collective provisions for creditworthiness risks	32.9	–	2.0	–	17.4	–	–	–	17.5
Collective provisions for country risks	3.9	–	1.7	–	0.7	–	–	0.1	5.0
Sub-total	**222.0**	**0.3**	**222.1**	**95.8**	**24.0**	**–**	**–1.1**	**9.6**	**333.1**
Provisions for credit risks									
Specific risks	0.4	–	–	0.1	1.0	–	1.1	–0.1	0.3
Portfolio risks	1.4	–	–	–	0.7	–	–	–	0.7
Sub-total	**1.8**	**–**	**–**	**0.1**	**1.7**	**–**	**1.1**	**–0.1**	**1.0**
Total	**226.2**	**0.3**	**222.1**	**97.3**	**26.4**	**–**	**–**	**9.4**	**334.3**

Key ratios for provisions for loan losses:

%	2017	2016
Reversal/allocation ratio as at reporting date[1]		
(Ratio of net allocation to lending volume)	–0.11	–0.76
Default rate as at reporting date		
(Ratio of loan defaults to lending volume)	0.76	0.37
Average default rate		
(Ratio of loan defaults in 5-year average to lending volume)	0.58	0.51
Net provisioning ratio as at reporting date		
(Ratio of provisions for loan losses to lending volume)	0.56	1.30

[1] Reversal ratio shown without negative leading sign

Calculations of the above key ratios are based on the following lending volume as reflected in the statement of financial position:

€m	31 Dec 2017	31 Dec 2016
Due from banks[1]	5,414.2	7,081.5
Due from customers[1]	16,392.0	15,389.0
Contingent liabilities	3,088.4	2,565.6
Irrevocable lending commitments	1,283.8	702.3
Total	**26,178.4**	**25,738.4**

[1] Excluding money transactions

Provisions for loan losses by risk segment:

	Valuation allowances and provisions for loan losses and credit risks		Loan defaults[1]		Net allocations to[2]/reversals of valuation allowances and provisions for loan losses	
€m	31 Dec 2017	31 Dec 2016	2017	2016	2017	2016
Customers						
Transport and export finance	127.9	281.7	167.1	36.1	–32.4	–189.0
Public infrastructure	0.3	40.9	32.1	–	4.5	–1.4
Property risks	1.9	1.6	–0.2	25.7	–0.2	3.6
Energy and utility infrastructure	14.0	8.6	–	33.0	–2.0	–10.0
Corporates	–	–	–	–	–	0.4
Other	1.1	1.3	–	–	0.2	–
Total customers	**145.2**	**334.1**	**199.0**	**94.8**	**–29.9**	**–196.4**
Banks						
Corporates	–	–	–	1.4	–	0.6
Financial institutions	0.3	0.2	–	–	–0.1	0.1
Total banks	**0.3**	**0.2**	**–**	**1.4**	**–0.1**	**0.7**
Total	**145.5**	**334.3**	**199.0**	**96.2**	**–30.0**	**–195.7**

[1] Payments received on written-down receivables – negative in the column
[2] Negative in the column

45 Financial assets at fair value

In addition to securities and receivables in the “held for trading” and “designated at fair value” categories, financial assets at fair value through profit or loss include positive market values from derivative financial instruments in the trading book and from economic hedges that do not meet the criteria for hedge accounting under IAS 39.

€m	31 Dec 2017	31 Dec 2016	Change
Held for trading			
Debt securities and other fixed-interest securities	4,310.2	5,309.9	–999.7
Bonds and debt securities	4,216.6	5,214.8	–998.2
Money market securities	93.6	95.1	–1.5
Shares and other non fixed-interest securities	2,375.6	1,107.2	1,268.4
Shares	975.1	643.1	332.0
Units in investment funds	1,400.5	464.1	936.4
Promissory note loans	782.9	1,026.1	–243.2
Positive market values of derivative financial instruments (trading)	5,004.0	7,194.8	–2,190.8
Total – held for trading	**12,472.7**	**14,638.0**	–2,165.3
Designated at fair value			
Debt securities and other fixed-interest securities	17,665.7	18,695.4	–1,029.7
Bonds and debt securities	17,665.7	18,695.4	–1,029.7
Shares and other non fixed-interest securities	1,277.0	1,016.4	260.6
Shares	10.2	15.9	–5.7
Units in investment funds	1,266.8	980.7	286.1
Other non fixed-interest securities	–	19.8	–19.8
Promissory note loans	81.6	297.4	–215.8
Positive market values of derivative financial instruments (economic hedges)	488.4	256.0	232.4
Total – designated at fair value	**19,512.7**	**20,265.2**	–752.5
Total	**31,985.4**	**34,903.2**	–2,917.8

The fair value of receivables in the designated at fair value category includes cumulative creditworthiness-related changes in value amounting to €–0.2m (previous year: €–4.1m).

The following debt securities and other fixed-interest securities, and shares and other non-fixed-interest securities in financial assets measured at fair value, are listed on the stock exchange:

€m	31 Dec 2017	31 Dec 2016	Change
Debt securities and other fixed-interest securities	20,794.5	23,048.1	–2,253.6
Shares and other non fixed-interest securities	1,358.7	1,054.0	304.7

46 Positive market values of derivative hedging instruments

The positive market values of hedging instruments that meet the criteria for hedge accounting under IAS 39 can be broken down by underlying hedged transaction as follows:

€m	31 Dec 2017	31 Dec 2016	Change
Fair value hedges			
Asset items			
Due from banks	–	0.1	–0.1
Due from customers	12.5	10.0	2.5
Liability items			
Due to banks	0.1	–	0.1
Due to customers	7.6	11.9	–4.3
Securitised liabilities	–	6.6	–6.6
Subordinated capital	0.1	–	0.1
Total – fair value hedges	**20.3**	**28.6**	–8.3
Cash flow hedges			
Asset items	0.1	–	0.1
Total	**20.4**	**28.6**	–8.2

The hedging instruments consist chiefly of interest rate swaps (fair value hedges) and spot currency transactions with rolling currency swaps (cash flow hedges).

47 Financial investments

€m	31 Dec 2017	31 Dec 2016	Change
Loans and receivables			
Debt securities and other fixed-interest securities	878.1	674.3	203.8
Held to maturity			
Debt securities and other fixed-interest securities	2,891.6	2,309.4	582.2
Available for sale			
Debt securities and other fixed-interest securities	0.0	0.0	–0.0
Shares and other non fixed-interest securities	–	0.0	–0.0
Shareholdings			
Equity investments	45.7	30.8	14.9
Shares in equity-accounted companies	16.0	6.9	9.1
Shares in affiliated, non-consolidated companies	1.1	1.1	–
Shares in associated companies not accounted for under the equity method	1.4	0.2	1.2
Financial investments before risk provision	**3,833.9**	**3,022.7**	811.2
Risk provision	–43.2	–53.8	10.6
Total	**3,790.7**	**2,968.9**	821.8

Changing the method used for estimating the fair value of shares in entities listed as “shareholdings” led to a rise of €33.6m in comparison to previous year in the carrying value of financial investments.

Of the financial investments, the following are listed on the stock exchange:

€m	31 Dec 2017	31 Dec 2016	Change
Debt securities and other fixed-interest securities	3,029.1	2,753.9	275.2

The following table shows the movement in long-term financial investments:

€m	Equity investments	Shares in equity-accounted companies	Shares in affiliated companies	Shares in associated companies	Total
Historical cost					
As at 1 January 2016	28.8	131.8	4.6	0.2	165.4
Additions	–	0.0	0.4	–	0.4
Disposals	2.2	–	–	–	2.2
Change in scope of consolidation	–	–55.6	–3.9	–	–59.5
As at 31 December 2016	**26.6**	**76.2**	**1.1**	**0.2**	**104.1**
Disposals	12.4	–	–	–	12.4
As at 31 December 2017	**14.2**	**76.2**	**1.1**	**0.2**	**91.7**
Cumulative amortisation/impairment					
As at 1 January 2016	0.9	119.5	–	–	120.4
Write-backs	–	2.6	–	–	2.6
Net income from equity-accounted companies	–	1.3	–	–	1.3
Reclassifications and other changes	–	1.2	–	–	1.2
Change in the revaluation reserve	5.1	–1.2	–	–	3.9
Change in scope of consolidation	–	–48.7	–	–	–48.7
As at 31 December 2016	**–4.2**	**69.3**	**–**	**–**	**65.1**
Net income from equity-accounted companies	–	11.2	–	–	11.2
Change in the revaluation reserve	27.3	–2.1	–	1.2	26.4
As at 31 December 2017	**–31.5**	**60.2**	**–**	**–1.2**	**27.5**
Carrying value as at 31 December 2016	**30.8**	**6.9**	**1.1**	**0.2**	**39.0**
Carrying value as at 31 December 2017	**45.7**	**16.0**	**1.1**	**1.4**	**64.2**

48 Intangible assets

€m	31 Dec 2017	31 Dec 2016	Change
Purchased goodwill	**148.1**	**148.1**	–
Software			
Purchased	28.8	29.6	–0.8
Developed in-house	3.6	3.5	0.1
Total software	**32.4**	**33.1**	–0.7
Other intangible assets	14.2	16.9	–2.7
Total	**194.7**	**198.1**	–3.4

Purchased goodwill includes goodwill arising on the acquisition of LBB-INVEST (€95.0m). For the purposes of the impairment test performed as at 31 December 2017, this was allocated to the Asset Management Securities business division as the cash-generating unit. Purchased goodwill also includes goodwill arising on the acquisition of WestInvest Gesellschaft für Investmentfonds mbH (WestInvest) (€53.1m). The impairment test was carried out at the level of the Asset Management Real Estate business division in the course of normal testing procedures as at 31 December 2017.

The recoverable amount of both cash-generating units, each taken individually, was determined on the basis of the value in use. The discount rate required for the income capitalisation approach used was derived using the capital asset pricing model (CAPM). The expected post-tax cash flows were calculated for a five-year period.

The performance of the Asset Management Securities business division's total customer assets under management was identified as a key value driver in its capacity as a cash-generating unit. The forecast was based on national economic data and past empirical values. Business and earnings trends are expected to remain stable. The values taken for the perpetual annuity represent the forecast for 2022. The long-term growth rate remains unchanged at 1.0%. The discount rate was 8.47% (previous year: 8.86%). The value in use established using this approach was higher than the carrying value of the cash-generating unit. As a result, no impairment charge was required.

Internal forecasts based on national economic data and specific competition and market analyses were used for the Asset Management Real Estate business division cash-generating unit. Account was taken of past empirical values, particularly with regard to the material value driver, which is the future development of total customer assets. On the basis of planned net sales, the fund business is expected to see a further increase in total customer assets and to consolidate its successful market position over the next three years. This is contingent on the successful completion of planned transactions in the target segments, in which competition remains intense. Lower net cash inflows and hence also lower transaction income are expected in 2021 and 2022, owing to the cyclical nature of sales and also to the effects of regulatory uncertainties (for example, the investment tax reforms or MiFID II) or other unpredictable events (such as interest rate rises). A perpetual return based on the forecast for 2022 was also taken into account and an unchanged long-term growth rate of 1.0% was assumed. The discount rate was 7.17% (previous year: 7.46%). The value in use established using this approach was higher than the carrying value of the cash-generating unit. As a result, no impairment write-down was required.

Other intangible assets primarily comprise sales partnerships and customer relationships from the acquisition of LBB-INVEST.

The following table shows the movement in intangible assets:

€m	Purchased goodwill	Software purchased	Software developed in-house	Other intangible assets	Total
Historical cost					
As at 1 January 2016	240.4	150.5	74.0	51.7	516.6
Additions	–	18.9	0.3	–	19.2
Disposals	–	3.5	0.4	1.1	5.0
Change in scope of consolidation	–	12.1	2.6	–	14.7
As at 31 December 2016	**240.4**	**178.0**	**76.5**	**50.6**	**545.5**
Additions	–	9.4	2.2	–	11.6
Disposals	–	0.2	–	–	0.2
Change in scope of consolidation	–1.7	–	–	–	–1.7
As at 31 December 2017	**238.7**	**187.2**	**78.7**	**50.6**	**555.2**
Cumulative amortisation/impairment					
As at 1 January 2016	92.3	130.4	71.9	30.8	325.4
Amortisation/impairment	–	10.3	1.5	4.1	15.9
Disposals	–	3.5	0.4	1.2	5.1
Change in scope of consolidation	–	11.2	–	–	11.2
As at 31 December 2016	**92.3**	**148.4**	**73.0**	**33.7**	**347.4**
Amortisation/impairment	–	10.0	2.1	2.7	14.8
Disposals	–	0.0	–	–	0.0
Change in scope of consolidation	–1.7	–	–	–	–1.7
As at 31 December 2017	**90.6**	**158.4**	**75.1**	**36.4**	**360.5**
Carrying value as at 31 December 2016	**148.1**	**29.6**	**3.5**	**16.9**	**198.1**
Carrying value as at 31 December 2017	**148.1**	**28.8**	**3.6**	**14.2**	**194.7**

49 Property, plant and equipment

€m	31 Dec 2017	31 Dec 2016	Change
Plant and equipment	21.5	14.7	6.8
Technical equipment and machines	5.9	2.4	3.5
Total	**27.4**	**17.1**	10.3

The movement in property, plant and equipment in the Deka Group was as follows:

€m	Plant and equipment	Technical equipment and machines	Total
Historical cost			
As at 1 January 2016	44.5	59.7	104.2
Additions	1.2	1.6	2.8
Disposals	0.1	3.7	3.8
Change in scope of consolidation	0.6	2.5	3.1
As at 31 December 2016	**46.2**	**60.1**	**106.3**
Additions	9.6	5.3	14.9
Disposals	6.4	3.4	9.8
Change in scope of consolidation	–0.3	–	–0.3
As at 31 December 2017	**49.1**	**62.0**	**111.1**
Cumulative amortisation/impairment			
As at 1 January 2016	29.9	58.0	87.9
Amortisation/impairment	1.1	1.2	2.3
Disposals	0.1	3.7	3.8
Change in scope of consolidation	0.6	2.2	2.8
As at 31 December 2016	**31.5**	**57.7**	**89.2**
Amortisation/impairment	2.7	1.8	4.5
Disposals	6.5	3.4	9.9
Change in scope of consolidation	–0.1	–	–0.1
As at 31 December 2017	**27.6**	**56.1**	**83.7**
Carrying value as at 31 December 2016	**14.7**	**2.4**	**17.1**
Carrying value as at 31 December 2017	**21.5**	**5.9**	**27.4**

50 Income tax assets

€m	31 Dec 2017	31 Dec 2016	Change
Current income tax assets	186.2	193.6	–7.4
Deferred income tax assets	148.4	156.1	–7.7
Total	**334.6**	**349.7**	–15.1

Deferred income tax assets represent the potential income tax relief arising from temporary differences between the values of assets and liabilities in the IFRS statement of financial position and the tax statement of financial position.

In the year under review, deferred tax assets included €2.9m in relation to loss carry-forwards at one Group company (previous year: €3.8m).

Deferred tax assets were recognised in relation to the following line items:

€m	31 Dec 2017	31 Dec 2016	Change
Asset items			
Due from customers	6.6	0.6	6.0
Financial assets at fair value	0.9	0.6	0.3
Intangible assets	16.5	20.0	–3.5
Other assets	0.3	0.4	–0.1
Liability items			
Due to banks	11.8	18.8	–7.0
Due to customers	59.9	75.3	–15.4
Securitised liabilities	–	0.8	–0.8
Financial liabilities at fair value	222.3	299.6	–77.3
Negative market values of derivative hedging instruments	10.3	21.0	–10.7
Provisions	97.5	96.1	1.4
Other liabilities	5.6	5.0	0.6
Subordinated capital	1.3	3.5	–2.2
Loss carryforwards	**2.9**	**3.8**	–0.9
Sub-total	**435.9**	**545.5**	–109.6
Netting	–287.5	–389.4	101.9
Total	**148.4**	**156.1**	–7.7

Reported deferred tax assets include €148.4m (previous year: €156.0m) that are medium or long-term in nature.

As at the reporting date, a loss carryforward of €0.2m existed at one Luxembourg company (previous year: €0.0m) which has not been recognised in the financial statements. There were no other temporary differences for which deferred tax assets have not been recognised (tax assets not recognised in the previous year: €0.0m).

The netting of deferred tax assets and liabilities relates mainly to short-term deferred taxes arising from temporary differences in connection with financial assets and liabilities at fair value.

At the reporting date, as in the previous year, there were no outside basis differences that would have led to the recognition of deferred tax assets.

Deferred income tax assets amounting to €49.2m (previous year: €54.1m) in connection with pension provisions and deferred income tax assets amounting to €1.1m (previous year: €9.3m) in connection with cash flow hedges were offset against equity.

51 Other assets

€m	31 Dec 2017	31 Dec 2016	Change
Amounts due from investment funds	160.4	125.7	34.7
Amounts due from non-banking business	20.8	22.3	–1.5
Amounts due or refunds from other taxes	0.3	0.7	–0.4
Other miscellaneous assets	89.6	129.1	–39.5
Prepaid expenses	29.5	28.9	0.6
Total	**300.6**	**306.7**	–6.1

Other assets include €9.8 thousand (previous year: €9.8 thousand) that are of a medium or long-term nature.

52 Due to banks

€m	31 Dec 2017	31 Dec 2016	Change
Domestic banks	14,541.3	13,150.2	1,391.1
Foreign banks	4,696.5	4,212.2	484.3
Total	**19,237.8**	**17,362.4**	1,875.4
Thereof:			
Collateralised registered bonds and promissory note loans	78.7	199.1	–120.4
Unsecured registered bonds and promissory note loans	2,749.3	2,797.7	–48.4

Amounts due to banks include payments received of €3.6bn on genuine securities repurchase agreements and collateralised securities lending transactions (previous year: €3.5bn).

53 Due to customers

€m	31 Dec 2017	31 Dec 2016	Change
Domestic customers	18,683.6	16,523.3	2,160.3
Foreign customers	7,977.3	6,895.8	1,081.5
Total	**26,660.9**	**23,419.1**	3,241.8
Thereof:			
Collateralised registered bonds and promissory note loans	1,467.5	1,633.3	–165.8
Unsecured registered bonds and promissory note loans	1,219.1	1,262.8	–43.7

Amounts due to customers include payments received of €3.6bn from genuine securities repurchase agreements and collateralised securities lending transactions (previous year: €2.5bn).

54 Securitised liabilities

Securitised liabilities include bonds and other liabilities for which transferable certificates are issued. In accordance with IAS 39, issued bonds are disclosed net of bonds with a nominal value of €0.2bn held within the Deka Group (previous year: €0.2bn).

€m	31 Dec 2017	31 Dec 2016	Change
Uncovered debt securities issued	7,629.0	8,100.6	– 471.6
Covered debt securities issued	241.8	224.8	17.0
Money market securities issued	6,364.0	2,750.7	3,613.3
Total	**14,234.8**	**11,076.1**	3,158.7

55 Financial liabilities at fair value

In addition to trading issues and liabilities in the designated at fair value category, financial liabilities at fair value include negative market values of derivative financial instruments in the trading book as well as economic hedges which do not meet the criteria for hedge accounting in accordance with IAS 39. Short positions are also reported in this line item.

€m	31 Dec 2017	31 Dec 2016	Change
Held for trading			
Trading issues	17,463.1	15,063.5	2,399.6
Securities short portfolios	960.9	772.8	188.1
Negative market values of derivative financial instruments (trading)	5,326.7	7,409.5	– 2,082.8
Total – held for trading	**23,750.7**	**23,245.8**	504.9
Designated at fair value			
Issues	1,755.8	2,116.7	– 360.9
Negative market values of derivative financial instruments (economic hedges)	476.3	1,157.0	– 680.7
Total – designated at fair value	**2,232.1**	**3,273.7**	– 1,041.6
Total	**25,982.7**	**26,519.5**	– 536.8

Issues can be broken down by product type as follows:

€m	31 Dec 2017	31 Dec 2016	Change
Held for trading			
Uncovered trading issues			
Bearer bonds issued	14,016.8	11,601.0	2,415.8
Registered bonds issued	1,163.2	1,094.3	68.9
Promissory notes raised	2,283.1	2,368.3	–85.2
Total	**17,463.1**	**15,063.5**	2,399.6
Designated at fair value			
Uncovered issues			
Bearer bonds issued	329.8	364.7	–34.9
Registered bonds issued	288.2	342.1	–53.9
Promissory notes raised	216.8	329.0	–112.2
Covered issues	921.0	1,080.9	–159.9
Total	**1,755.8**	**2,116.7**	–360.9

The fair value of issues in the designated at fair value category includes cumulative creditworthiness-related changes in value amounting to €12.6m (previous year: €8.9m).

The carrying value of liabilities allocated to the designated at fair value category is €203.4m higher (previous year: €247.9m) higher than the repayment amount.

56 Negative market values from derivative hedging instruments

The negative market values of hedging instruments that meet the criteria for hedge accounting in accordance with IAS 39 are shown below by hedged underlying transactions:

€m	31 Dec 2017	31 Dec 2016	Change
Fair value hedges			
Asset items			
Due from banks	0.1	–	0.1
Due from customers	11.6	31.0	–19.4
Liability items			
Due to banks	0.1	–	0.1
Securitised liabilities	0.2	0.1	0.1
Subordinated capital	–	0.1	–0.1
Total – fair value hedges	**12.0**	**31.2**	–19.2
Cash flow hedges			
Asset items	–	3.2	–3.2
Total	**12.0**	**34.4**	–22.4

The hedging instruments consist chiefly of interest rate swaps (fair value hedges) and spot currency transactions with rolling currency swaps (cash flow hedges).

57 Provisions for pensions and similar commitments

The following table shows the movement in provisions:

€m	Provisions for pensions	Provisions for similar commitments[1]	Total
As at 1 January 2016	**188.7**	**24.9**	**213.6**
Allocation	36.6	2.3	38.9
Utilisation	13.4	6.2	19.6
Reclassifications	–	1.6	1.6
Change in plan assets	–13.0	–0.9	–13.9
Business combinations and change in scope of consolidation	0.2	–	0.2
Revaluations recognised in other comprehensive income	15.1	–	15.1
As at 31 December 2016	**214.2**	**21.7**	**235.9**
Allocation	36.6	8.6	45.2
Utilisation	13.4	6.7	20.1
Reclassifications	–	0.1	0.1
Change in plan assets	–65.5	–1.1	–66.6
Business combinations and change in scope of consolidation	2.9	0.8	3.7
Revaluations recognised in other comprehensive income	–15.4	–	–15.4
As at 31 December 2017	**159.4**	**23.4**	**182.8**

[1] Including provision for working hours accounts

The present value of the obligations can be reconciled to the provision on the statement of financial position as follows:

€m	31 Dec 2017	31 Dec 2016	Change
Present value of fully or partially funded defined benefit obligations	746.0	709.3	36.7
Fair value of plan assets at reporting date	612.3	519.9	92.4
Funding status	**133.7**	**189.4**	–55.7
Present value of unfunded defined benefit obligations	49.1	46.5	2.6
Provisions for pensions	**182.8**	**235.9**	–53.1

The movement in the net liability was as follows:

	Defined benefit obligations		Fair value of plan assets		Net obligation/ (net asset)	
€m	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
As at 1 January	**755.8**	**705.5**	**519.9**	**491.9**	**235.9**	**213.6**
Current service cost	32.3	32.1	–	–	32.3	32.1
Interest expense or income	14.5	15.9	10.2	11.4	4.3	4.5
Other pension expenses	8.6	2.3	–	–	8.6	2.3
Pension expenses (recognised in profit or loss)	**55.4**	**50.3**	**10.2**	**11.4**	**45.2**	**38.9**
Actuarial gains/losses from:						
Financial assumptions	6.4	24.9	–	–	6.4	24.9
Experience adjustment	–10.2	–8.1	–	–	–10.2	–8.1
Income from plan assets excluding interest income	–	–	11.6	1.7	–11.6	–1.7
Revaluation gains/losses (recognised in other comprehensive income)	**–3.8**	**16.8**	**11.6**	**1.7**	**–15.4**	**15.1**
Transfers	0.1	1.6	–	–	0.1	1.6
Business combinations and change in scope of consolidation	7.7	1.2	4.0	1.0	3.7	0.2
Employer contributions	–	–	58.9	6.2	–58.9	–6.2
Employee contributions	–	–	8.7	9.9	–8.7	–9.9
Benefits paid	–20.1	–19.6	–1.0	–2.2	–19.1	–17.4
As at 31 December	**795.1**	**755.8**	**612.3**	**519.9**	**182.8**	**235.9**
Comprising:						
Final salary plans and general contribution schemes	492.5	484.8	374.9	311.7	117.6	173.1
Unit-linked defined contribution plans	272.5	243.8	230.7	202.5	41.8	41.3

The present value of the defined benefit obligation was calculated using the Heubeck 2005 G mortality tables based on the following actuarial parameters:

%	**31 Dec 2017**	**31 Dec 2016**	Change
Actuarial interest rate	1.90	1.95	–0.05
Pension trend for adjustments according to Section 16(2) Company Pension Funds Act (BetrAVG)[1)]	1.75	1.75	–
Pension adjustment with overall trend updating[1)]	2.25	2.25	–
Salary trend[1)]	2.50	2.50	–

[1)] Not relevant for the valuation of unit-linked pension commitments as these are not dependent on final salary

For non-vested projected benefits, staff turnover profiles published by Heubeck-Richttafeln-GmbH are also used in the calculation with a level parameter of 1.5. The discount factor for similar commitments was –0.28% (previous year: –0.25%). This rate takes account of the shorter time to maturity compared to pension commitments as well as the rate of adjustment in early retirement and transitional payments not shown separately.

The sensitivity analysis presented below shows how a change in significant actuarial assumptions can affect the defined benefit obligation (DBO). This analysis considers the change in one assumption, leaving the other assumptions unchanged relative to the original calculation. This means that potential correlation effects between the individual assumptions are disregarded. The sensitivity analysis only applies to the present value of the DBO and not to the net obligation, as the latter is determined by a number of factors including both the actuarial assumptions and the fair value of the plan assets.

€m	Change in actuarial assumptions	Effect on defined benefit obligations	
		31 Dec 2017	31 Dec 2016
Actuarial interest rate	Increase of 1.0 percentage points	–112.0	–110.9
	Reduction of 1.0 percentage points	146.2	144.7
Salary trend	Increase of 0.25 percentage points	6.3	6.8
	Reduction of 0.25 percentage points	–5.9	–6.4
Pension trend	Increase of 0.25 percentage points	16.1	15.9
	Reduction of 0.25 percentage points	–15.4	–15.2
Life expectancy	Extended by 1 year	22.7	22.0

At the balance sheet date, plan assets were as follows:

€m	31 Dec 2017	31 Dec 2016	Change
Mutual funds	236.5	207.1	29.4
Equity funds	219.1	191.8	27.3
Bond funds	1.6	1.7	–0.1
Mixed funds	9.1	8.0	1.1
Near-money-market funds	6.7	5.6	1.1
Special funds	375.0	311.9	63.1
Insurance contracts	0.8	0.9	–0.1
Total	**612.3**	**519.9**	92.4

Apart from insurance contracts, the plan assets consist of assets for which quoted market prices are available on an active market. As at 31 December 2017, the plan assets included €611.5m of the Deka Group's own investment funds (previous year: €519.0m). They did not include properties used by the Deka Group or other assets.

The units in mutual funds are used to finance unit-linked commitments and working hours accounts. For obligations under final salary plans and general contribution schemes, investments have been made in a special fund whose investment strategy is based on an integrated asset-liability approach. Insurance contracts relate mainly to term life assurance policies. The risks associated with defined benefit obligations include not only the usual actuarial risks, such as longevity risk and interest-rate risk, but also risks in connection with the plan assets. In particular, the plan assets may be subject to market price risks.

Income from the plan assets is assumed to match the actuarial interest rate, which is determined on the basis of corporate bonds with a credit rating of at least AA. If the actual return on the plan assets falls below the actuarial interest rate applied, the net obligation arising from the defined benefit commitments is increased. However, in view of the composition of the plan assets, it is assumed that the actual return over the medium to long term will exceed the yield on good-quality corporate bonds.

The amount of the net obligation is also affected in particular by the actuarial interest rate. The current very low level of interest rates leads to a relatively high net obligation. A further decline in corporate bond yields would lead to a further increase in the defined benefit obligations, which may only be partially offset by the positive performance of the plan assets.

The weighted average maturity of the defined benefit pension obligations was 16.3 years as at the balance sheet date (previous year: 17.4 years).

The present value of the defined benefit obligations is made up as follows:

€m	31 Dec 2017	31 Dec 2016	Change
Current scheme members	424.4	398.7	25.7
Former scheme members	170.5	166.8	3.7
Pensioners and surviving dependents	200.2	190.3	9.9
Present value of defined benefit obligation	**795.1**	**755.8**	39.3

For the 2018 financial year it is expected that contributions amounting to €14.8m (previous year: €16.1m) will have to be allocated to the defined benefit schemes.

58 Other provisions

€m	31 Dec 2017	31 Dec 2016	Change
Provisions for restructuring measures	27.7	27.2	0.5
Provisions for legal risks	27.0	7.4	19.6
Provisions for operational risks	0.9	0.6	0.3
Provisions for credit risks	1.7	1.0	0.7
Provisions in human resources	1.0	0.5	0.5
Provisions in investment funds business	70.2	72.6	–2.4
Sundry other provisions	11.6	12.8	–1.2
Total	**140.1**	**122.1**	18.0

Restructuring provisions arise from the Deka Group's various restructuring activities, including the transformation process aimed at turning DekaBank into a *Wertpapierhaus* for the savings banks, as well as the strategic reorganisation of the subsidiary LBB-INVEST (Landesbank Berlin Investment GmbH) in the Asset Management Securities business division.

Provisions for legal and operational risks are established for potential losses that could result from the use of inadequate internal processes and systems or their failure, as well as from human error and external events. The provisions exist mainly to cover legal risks in the HR area and for refunds of unlawful processing charges in relation to lending business. Operational risks can lead to claims from customers, counterparties and supervisory authorities or to legal action.

Provisions for credit risks are provisions created for impairments identified in relation to guarantees and sureties (see note [44]).

Furthermore, provisions were created for funds with formal guarantees and targeted returns as described below.

The Deka Group's range of products includes investment funds with guarantees of various types. Upon maturity of the fund or at the end of the investment period, the investment management company guarantees that the investor will receive either the capital originally invested (less charges) or the unit value at the start of that investment period. The amount of the provision is the forecast shortfall at the guarantee date, which is the difference between the expected unit value and the unit value guaranteed. As at the balance sheet date, provisions of €2.1m (previous year: €2.4m) had been made based on the performance of the relevant funds. As at the reporting date, the guarantees covered a maximum total volume of €3.4bn (previous year: €3.9bn) as at the respective guarantee dates. The market value of the relevant funds totalled €3.7bn (previous year: €4.1bn). This includes funds with a forecast return performance, as described below, which had a volume of €1.6bn (previous year: €2.4bn).

Investment funds whose return is forecast and published on the basis of current money market rates set by the Group exist in two varieties: with or without a capital guarantee. The level of the provision is determined using potential loss scenarios taking account of the risks related to liquidity, interest rate and spreads. As at the reporting date, provisions of €44.4m (previous year: €40.1m) had been established. The underlying total value of the funds was €6.8bn (previous year: €6.5bn), of which €1.6bn (previous year: €2.4bn) related to funds with a capital guarantee and €5.2bn (previous year: €4.1bn) to funds without a capital guarantee.

The sundry other provisions were established in respect of liabilities arising from a range of issues.

The movement in other provisions is as follows:

€m	Opening balance 1 Jan 2017	Allocation	Utilisations	Reversal	Reclassifications	Accrued interest	Currency effects	Closing balance 31 Dec 2017
Provisions for restructuring measures	27.2	5.9	4.5	0.9	–	–	–	27.7
Provisions for legal risks	7.4	19.8	0.1	0.1	–	–	–	27.0
Provisions for operational risks	0.6	0.4	0.1	–	–	–	–	0.9
Provisions for credit risks	1.0	0.7	–	–	–	–	–	1.7
Provisions in human resources	0.5	1.0	0.3	0.1	–0.1	–	–	1.0
Provisions in investment funds business	72.6	7.3	0.9	8.7	–	–0.1	–	70.2
Sundry other provisions	12.8	0.8	1.9	0.1	–	–	–	11.6
Other provisions	**122.1**	**35.9**	**7.8**	**9.9**	**–0.1**	**–0.1**	**–**	**140.1**

Some of the provisions for restructuring measures are reclassified as provisions for pensions and similar commitments in the subsequent year, in accordance with their underlying nature.

Other provisions include €35.9m (previous year: €45.0m) that are of a medium or long-term nature.

59 Income tax liabilities

€m	31 Dec 2017	31 Dec 2016	Change
Provisions for income taxes	15.8	16.8	–1.0
Current income tax liabilities	5.9	42.1	–36.2
Deferred income tax liabilities	147.3	123.3	24.0
Total	**169.0**	**182.2**	–13.2

Provisions for income taxes relate to corporation tax, the solidarity surcharge and trade tax. Provisions for income taxes include €15.8m (previous year: €16.8m) that are of a medium or long-term nature.

Current income tax liabilities include payments for income taxes from the reporting year and earlier periods that were due but had not yet been paid as at the reporting date. Deferred income tax liabilities represent the potential income tax charges from temporary differences between the values of assets and liabilities on the IFRS statement of financial position and the tax statement of financial position.

Deferred tax liabilities were recognised in relation to the following line items on the statement of financial position:

€m	31 Dec 2017	31 Dec 2016	Change
Asset items			
Due from banks	0.7	3.0	–2.3
Due from customers	0.1	5.6	–5.5
Financial assets at fair value	290.9	317.3	–26.4
Positive market values of derivative hedging instruments	87.6	124.5	–36.9
Financial investments	47.9	50.6	–2.7
Shares in equity-accounted companies	0.1	–	0.1
Intangible assets	4.5	5.7	–1.2
Other assets	2.3	4.8	–2.5
Liability items			
Securitised liabilities	0.5	–	0.5
Provisions	–	0.0	–0.0
Other liabilities	0.2	1.2	–1.0
Sub-total	**434.8**	**512.7**	–77.9
Netting	–287.5	–389.4	101.9
Total	**147.3**	**123.3**	24.0

Reported deferred tax liabilities include €142.5m (previous year: €121.7m) that are of a short-term nature.

The netting of deferred tax assets and liabilities relates mainly to short-term deferred taxes arising from temporary differences in connection with financial assets and liabilities at fair value.

As at the reporting date, temporary differences existed in connection with outside basis differences at consolidated subsidiaries amounting to €462.5m (previous year: €475.5m), resulting in imputed deferred tax liabilities of €7.4m (previous year: €7.6m). In accordance with IAS 12.39, these have not been recognised on the statement of financial position.

During the reporting year, deferred income tax liabilities amounting to €0.7m (previous year: €0.1m) were deducted from equity in relation to the first-time remeasurement of various equity interests held in the available-for-sale portfolio.

60 Other liabilities

The breakdown of other liabilities is as follows:

€m	31 Dec 2017	31 Dec 2016	Change
Liabilities			
Debt capital from minority interests	0.7	0.8	– 0.1
Commissions not yet paid to sales offices	111.4	101.2	10.2
Liabilities from current other taxes	69.9	26.5	43.4
Unsettled securities spot deals	0.1	2.2	– 2.1
Shares of profit attributable to atypical silent partners	77.6	84.1	– 6.5
Other	82.9	75.1	7.8
Accruals			
Sales performance compensation	308.9	290.6	18.3
Personnel costs	116.4	106.5	9.9
Year-end audit and other audit costs	6.9	5.9	1.0
Other accruals	52.7	48.6	4.1
Prepaid expenses	3.6	4.2	– 0.6
Total	**831.1**	**745.7**	85.4

Debt capital from minority interests essentially comprises the minority interests in consolidated investment funds. This is presented under other liabilities, since the unit holders have a redemption right at any time.

DekaBank offsets the share of profit attributable to atypical silent partners against the taxes already deducted for the benefit of the owners. As at the reporting date the share of profit was €77.6m higher than the taxes deducted.

"Other" includes in particular trade payables of €50.9m (previous year: €42.4m).

Other liabilities include €4.9m (previous year: €3.3m) that are of a medium or long-term nature.

61 Subordinated capital

€m	31 Dec 2017	31 Dec 2016	Change
Subordinated bearer bonds	186.8	187.8	– 1.0
Subordinated promissory note loans	171.4	172.4	– 1.0
Other subordinated liabilities	520.9	525.8	– 4.9
Prorated interest on subordinated liabilities	20.6	20.6	–
Capital contributions of typical silent partners	26.4	203.9	– 177.5
Prorated interest on capital contributions of typical silent partners	1.0	8.0	– 7.0
Total	**927.1**	**1,118.5**	– 191.4

In detail, the issues of subordinated capital are as follows:

Year of issue	Nominal value €m	Interest rate % p.a.	Maturity
2009	75.0	6.00	2019
2013	25.0	4.00	2023
2013	12.7	4.13	2024
2013	5.0	4.26	2025
2013	52.1	4.50	2028
2013	18.0	4.75	2033
2014	105.7	4.01	2024
2014	137.5	4.15	2025
2014	6.0	4.34	2027
2014	10.0	4.53	2028
2014	97.0	4.52	2029
2014	6.0	4.57	2030
2014	25.0	4.80	2034
2015	207.3	3.51	2025
2015	22.7	3.58	2026
2015	10.0	3.74	2027
2015	60.0	4.04	2030

There are no agreements or plans to convert these funds into capital or another form of debt. There is no early repayment obligation.

Interest expenses for typical silent capital contributions existing as at the reporting date amounted to €2.9m and are reported in net interest income (see note [31]). Notice of termination has been given in respect of all silent capital contributions. An initial repayment of silent capital contributions totalling €177.5m was made in the year under review.

62 Atypical silent capital contributions

Atypical silent capital contributions amounted to €52.4m (previous year: €52.4m). The distribution on atypical silent capital contributions in the year under review was €60.6m (previous year: €59.3m).

63 Equity

€m	31 Dec 2017	31 Dec 2016	Change
Subscribed capital	286.3	286.3	–
Less own shares	94.6	94.6	–
Additional capital components (AT1 bonds)	473.6	473.6	–
Capital reserve	190.3	190.3	–
Reserves from retained earnings			
Statutory reserve	6.3	6.3	–
Reserves required by the Bank's statutes	51.3	51.3	–
Other reserves from retained earnings	4,405.0	4,235.4	169.6
Total reserves from retained earnings	**4,462.6**	**4,293.0**	169.6
Revaluation reserve			
For provisions for pensions	–154.1	–169.5	15.4
For cash flow hedges	–3.4	–29.1	25.7
For financial instruments available for sale	33.6	5.1	28.5
For equity-accounted companies	–6.6	–4.5	–2.1
Applicable deferred taxes	49.6	63.3	–13.7
Total revaluation reserve	**–80.9**	**–134.7**	53.8
Currency translation reserve	–0.1	1.8	–1.9
Consolidated profit/loss	72.3	70.7	1.6
Total	**5,309.5**	**5,086.4**	223.1

In 2017, a positive valuation result from cash flow hedges totalling €+13.2m (previous year: €–3.0m) was recorded in the revaluation reserve. In addition, a loss of €–2.9m from the early closing-out of hedging transactions was reclassified from the revaluation reserve to profit or loss on financial instruments designated at fair value. At the same time, a loss of €–9.6m (previous year: €–13.4m) on expired hedging transactions was reclassified from the revaluation reserve to profit on financial instruments designated at fair value category. As a result of unscheduled repayments and syndications, margin cash flows from loans that were originally hedged, converted in the amount of €92.2m (previous year: €42.4m), will not arise in future periods. The cash flow hedge was modified accordingly. There were no reclassifications due to the ineffectiveness of hedges during the reporting year.

Hedged cash flows are expected to occur in subsequent reporting periods and are scheduled to be recognised through profit or loss in those periods:

€m	31 Dec 2017	31 Dec 2016	Change
Expected cash flows from asset items			
Up to 3 months	31.3	34.4	–3.1
Between 3 months and 1 year	5.9	57.2	–51.3
Between 1 year and 5 years	–	172.0	–172.0
More than 5 years	–	48.7	–48.7
Total expected cash flows	**37.2**	**312.3**	–275.1

Following an adjustment to the hedging strategy during the year under review, gross lending margins are now only hedged for the next year. In previous years, margins for all future periods were hedged.

Notes on financial instruments

64 Carrying values by measurement category

In the Deka Group, financial instruments are classified as per IFRS 7 by balance sheet line item and IFRS category:

€m	31.12.2017	31.12.2016	Change
Asset items			
Loans and receivables			
Due from banks	26,396.4	20,653.9	5,742.5
Due from customers	20,650.5	22,840.9	–2,190.4
Financial investments	875.3	672.4	202.9
Held to maturity			
Financial investments	2,851.2	2,257.5	593.7
Available for sale			
Financial investments	64.2	39.0	25.2
Held for trading			
Financial assets at fair value	12,472.7	14,638.0	–2,165.3
Designated at fair value			
Financial assets at fair value	19,512.7	20,265.1	–752.4
Positive market values of derivative hedging instruments	20.4	28.6	–8.2
Total asset items	**82,843.4**	**81,395.4**	1,448.0
Liability items			
Other liabilities			
Due to banks	19,237.8	17,362.4	1,875.4
Due to customers	26,660.9	23,419.1	3,241.8
Securitised liabilities	14,234.8	11,076.1	3,158.7
Subordinated capital	927.1	1,118.5	–191.4
Held for trading			
Financial liabilities at fair value	23,750.7	23,245.8	504.9
Designated at fair value			
Financial liabilities at fair value	2,232.0	3,273.6	–1,041.6
Negative market values from derivative hedging instruments	12.0	34.4	–22.4
Total liability items	**87,055.3**	**79,529.9**	7,525.4

65 Net profit or loss by measurement category

The individual measurement categories resulted in the following contributions to income and expenses:

€m	31 Dec 2017	31 Dec 2016	Change
Loans and receivables	474.7	289.8	184.9
Held to maturity	71.6	50.1	21.5
Other liabilities	–354.5	–363.8	9.3
Other comprehensive income	28.5	5.1	23.4
Result recognised in profit and loss	8.0	2.5	5.5
Available for sale	36.5	7.6	28.9
Held for trading	239.6	304.8	–65.2
Designated at fair value	–92.2	57.9	–150.1
Valuation result from hedge accounting for fair value hedges	–0.6	2.4	–3.0
Result from hedge accounting for cash flow hedges, recognised in other comprehensive income	25.7	10.4	15.3

Income and expenses are presented in line with their allocation to measurement categories in accordance with IAS 39. All income and expense components, i.e. gains and losses on disposal and measurement as well as interest and ongoing income, are included. Net interest income from derivative financial instruments in the trading book is reported in the held for trading category. Net interest income from economic hedging derivatives (banking book derivatives) that do not meet the requirements for hedge accounting are reported in the designated at fair value category. This table does not include commission on trading portfolios or financial instruments in the designated at fair value category. The net income from investments valued at equity is also excluded.

As in the previous year, no reclassifications were carried out during the reporting year.

66 Fair value disclosures

The carrying values and fair values of financial assets and financial liabilities are divided among the classes of financial instruments as shown in the following table.

	31 Dec 2017		31 Dec 2016	
€m	Fair value	Carrying value	Fair value	Carrying value
Asset items				
Cash reserves	10,039.6	10,039.6	3,687.6	3,687.6
Due from banks	26,515.5	26,396.4	20,835.2	20,653.9
Due from customers	20,910.3	20,650.5	23,122.1	22,840.9
Financial assets at fair value	31,985.4	31,985.4	34,903.2	34,903.2
Positive market values of derivative hedging instruments	20.4	20.4	28.6	28.6
Financial investments	3,821.7	3,790.7	2,983.3	2,968.9
Loans and receivables	850.7	875.3	632.9	672.4
Held to maturity	2,906.8	2,851.2	2,311.4	2,257.5
Available for sale	64.2	64.2	39.0	39.0
Other assets	214.6	214.6	183.9	183.9
Total asset items	**93,507.5**	**93,097.6**	**85,743.9**	**85,267.0**
Liability items				
Due to banks	19,357.6	19,237.8	17,521.7	17,362.4
Due to customers	26,882.2	26,660.9	23,691.8	23,419.1
Securitised liabilities	14,303.0	14,234.8	11,164.2	11,076.1
Financial liabilities at fair value	25,982.7	25,982.7	26,519.5	26,519.5
Negative market values of derivative hedging instruments	12.0	12.0	34.4	34.4
Subordinated capital	1,014.0	927.1	1,217.8	1,118.5
Other liabilities	240.6	240.6	230.7	230.7
Total liability items	**87,792.1**	**87,295.9**	**80,380.1**	**79,760.7**

For financial instruments due on demand or short-term financial instruments, fair value is the amount payable as at the reporting date. The carrying value therefore represents a reasonable approximation to the fair value. These include, *inter alia*, the cash reserve, overdraft facilities and demand deposits due from or owed to banks and customers, and financial instruments included in other assets or other liabilities. In the following description of the fair value hierarchy, financial assets amounting to €11,148.4m (previous year: €4,565.5m) and financial liabilities amounting to €14,897.0m (previous year: €10,729.3m) are not allocated to any level of the fair value hierarchy.

Fair value hierarchy

Financial instruments carried at fair value on the statement of financial position, as well as financial instruments that are not measured at fair value but whose fair value must be stated, must be allocated to the following three fair value hierarchy levels specified in IFRS 13, depending on the input factors influencing their valuation:

Level 1 (Prices listed on active markets): Financial instruments whose fair value can be derived directly from prices on active, liquid markets are allocated to this level.

Level 2 (Valuation method based on observable market data): Financial instruments whose fair value can be determined either from similar financial instruments traded on active and liquid markets, from similar or identical financial instruments traded on less liquid markets or based on valuation methods with directly or indirectly observable input factors are allocated to this level.

Level 3 (Valuation method not based on observable market data): Financial instruments whose fair value is determined based on valuation models using, among other things, input factors not observable in the market, provided they are significant for the valuation, are allocated to this level.

The tables below show the fair values of the financial instruments recognised on the statement of financial position, according to their level in the fair value hierarchy.

	Prices listed on active markets (level 1)		Valuation method based on observable market data (level 2)		Valuation method not based on observable market data (level 3)	
€m	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Assets measured at fair value						
Debt securities, other fixed-interest securities and loan receivables	14,965.4	12,942.4	5,897.1	9,884.3	1,977.9	2,502.2
Shares and other non fixed-interest securities	3,605.1	1,996.3	47.5	127.2	–	–
Derivative financial instruments						
Interest-rate-related derivatives	–	0.1	4,389.4	5,705.2	1.2	15.8
Currency-related derivatives	–	–	184.3	225.9	–	–
Share and other price-related derivatives	371.9	329.7	531.5	1,170.6	14.1	3.5
Other financial assets (dafv)	–	–	–	–	–	–
Positive market values of derivative hedging instruments	–	–	20.4	28.6	–	–
Financial investments (shareholdings)	–	–	–	–	64.2	–
Assets measured at cost						
Due from banks	–	–	21,653.3	14,338.6	4,377.1	6,150.4
Thereof: Assets from genuine repurchase agreements and collateralised securities lending transactions	–	–	17,344.9	8,753.8	–	–
Due from customers	–	–	4,403.4	7,770.4	16,097.8	15,003.9
Thereof: Assets from genuine repurchase agreements and collateralised securities lending transactions	–	–	3,640.7	5,813.0	–	–
Financial investments	1,961.1	1,254.9	1,254.6	656.6	541.8	1,032.8
Total	**20,903.5**	**16,523.4**	**38,381.5**	**39,907.4**	**23,074.1**	**24,708.6**

€m	Prices listed on active markets (level 1)		Valuation method based on observable market data (level 2)		Valuation method not based on observable market data (level 3)	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Liabilities measured at fair value						
Securities short portfolios	841.9	647.1	119.0	125.7	–	–
Derivative financial instruments						
Interest-rate-related derivatives	–	0.9	4,231.5	5,923.5	22.3	139.9
Currency-related derivatives	–	–	207.7	214.0	–	–
Share and other price-related derivatives	700.5	665.8	633.3	1,621.0	7.7	1.4
Issues	–	–	18,271.8	16,472.4	947.0	707.8
Negative market values of derivative hedging instruments	–	–	12.0	34.4	–	–
Liabilities measured at cost						
Due to banks	–	–	18,670.7	14,008.4	126.4	2,565.2
Thereof: Liabilities from genuine repurchase agreements and collateralised securities lending transactions	–	–	3,551.6	3,788.9	–	–
Due to customers	–	–	12,212.0	12,701.4	574.3	1,439.9
Thereof: Liabilities from genuine repurchase agreements and collateralised securities lending transactions	–	–	3,625.2	2,563.8	–	–
Securitised liabilities	–	–	14,303.0	11,164.2	–	–
Subordinated capital	–	–	84.1	–	929.9	1,217.8
Total	**1,542.4**	**1,313.8**	**68,745.1**	**62,265.0**	**2,607.6**	**6,072.0**

Reclassifications

The following reclassifications between level 1 and level 2 of the fair value hierarchy took place in respect of assets and liabilities measured at fair value and held in the portfolio at the balance sheet date:

€m	Reclassifications from level 1 to level 2		Reclassifications from level 2 to level 1	
	2017	2016	2017	2016
Assets measured at fair value				
Debt securities, other fixed-interest securities and loan receivables	266.5	3,487.9	2,624.4	925.6
Liabilities measured at fair value				
Securities short portfolios	46.6	68.3	39.6	4.0

Financial instruments were transferred from level 1 to level 2 during the year under review because it could no longer be demonstrated that an active market existed for these financial instruments. Financial instruments were also transferred from level 2 to level 1 because, at the reporting date, prices were available for these financial instruments on an active market which could be used unchanged for valuation purposes.

Within the Deka Group, reclassifications between the different levels of the fair value hierarchy are deemed to have taken place as at the end of the relevant reporting period.

Fair value hierarchy level 1

Where securities and derivatives are traded on active markets with sufficient liquidity, and hence where stock market prices or executable broker quotations are available, these prices are used to determine the fair value.

The fair value of units in unconsolidated investment funds is generally determined from the redemption price published by the investment management company.

Fair value hierarchy level 2

Fair values for insufficiently liquid bearer bonds are determined on the basis of discounted future cash flows. Instrument-specific and issuer-specific interest rates are used for discounting. Discount rates are determined from market prices of similar liquid securities, selected according to criteria in the categories of issuer, sector, rating, rank and maturity.

Unless they are traded on the stock market, derivative financial instruments are generally measured using standard valuation models, such as the Black-Scholes model, the Black-76 model, the SABR model, the Bachelier model, the G1PP model, the G2PP model or the local volatility model. The models are always calibrated using observable market data.

In some cases and under restrictive conditions, options traded on the stock market are also measured using the Black-Scholes model. This case-by-case rule applies to special EUREX options where the published price is not based on sales or actual trading volume, but on the valuation using a theoretical EUREX model.

Interest rate swaps, cross-currency swaps and unlisted interest rate futures are measured on the basis of the discounted cash flow model using the market interest rates applying to the remainder of the term of the financial instruments. The tenor structures of the individual interest rates are taken into account by means of separate forward interest rate curves. Interest rate swaps are discounted using the currency-specific interest rate curve. This is used for bootstrapping the forward yield curve. For the foreign currency cash flows in interest rate/currency swaps, discounting is carried out taking into account the cross-currency basis.

Fair values for forward currency contracts are determined at the reporting date on the basis of the future rates, which in turn are quoted by FX swap points in the market.

Fair values of single name and index credit default swaps are determined using a standard hazard rate model calibrated to the respective par CDS spreads.

The fair value of deposits and borrowings is determined by discounting future cash flows using discount rates that are customary for comparable financial transactions with similar terms on liquid or less liquid markets.

The fair value of receivables and liabilities from genuine securities repurchase agreements is calculated by discounting future cash flows using the corresponding credit risk-adjusted discount rate. The discount rate applied takes into account the collateral criteria agreed at the time of concluding the genuine securities repurchase agreement.

If no price is observable on an active market for long-term financial liabilities, the fair value is determined by discounting the contractually agreed cash flows using an interest rate at which comparable liabilities could have been issued. Any existing collateralisation structure is taken into account, such as that used for *Pfandbriefe*, for example.

Fair value hierarchy level 3

Fair values of amounts due from banks or due from customers relating to lending business are determined using the present value method. Future cash flows from receivables are discounted at a risk-adjusted market rate based on the categories of borrower, sector, rating, rank and maturity.

Bonds and debt securities reported under assets measured at amortised cost are bonds and securitisation positions for which DekaBank had no current market price information as at the reporting date. Bonds are valued either on the basis of indicative quotations or using the discounted cash flow model, applying risk-adjusted market interest rates. The differing credit ratings of issuers are taken into account through appropriate adjustments in the discount rates.

The bonds and debt securities designated at fair value that are reported under financial assets at fair value are plain vanilla bonds and non-synthetic securitisation positions. Since early 2009, the Bank has been winding down the latter whilst safeguarding assets. Determining the fair value of plain vanilla bonds involves the use of credit spreads that are not observable in the market. Assuming an average uncertainty of five basis points relating to the credit spreads, the fair value of the plain vanilla bonds could have been €0.7m higher or lower. The fair value of non-synthetic securitisation positions in the portfolio is determined on the basis of indicative quotations or via spreads derived from indicative quotations for comparable bonds. These quotations are obtained from various brokers as well as from market price providers, such as S&P. The bid-ask spreads from the available price indications for the individual securitisation positions were used to determine a cautious bid-ask spread, which was used as an estimate for price sensitivity. Using this bid-ask spread, a variation range of 0.45 percentage points averaged across the portfolio was obtained. On this basis, the market value of the securitisation positions concerned could have been €0.4m higher or lower.

The bonds and debt securities presented within the financial assets at fair value line item in the held for trading category are plain vanilla bonds measured using credit spreads not observable in the market. Assuming an average uncertainty of five basis points relating to the credit spreads, the market value of the positions concerned could have been €2.3m higher or lower.

The Bank also allocates to level 3 a limited number of equity, credit and interest rate derivatives or issues with embedded equity, credit and interest rate derivatives, for example if unobservable valuation parameters are used which are significant for their valuation. For equity and interest rate derivatives whose valuation requires correlations, the Bank typically uses historical correlations with the relevant share prices or interest rate fixings, or changes to these. The sensitivity of the equity option positions concerned as at 31 December 2017 was around €–4.5m. For interest rate derivatives based on an index spread, the sensitivity in terms of the correlation between the relevant reference indices is mapped via shifts in the model parameters. The resulting change in the correlation is approximately +5.0%, giving rise to a measurement difference of €+0.1m. There are also equity derivatives with a maturity that is longer than the equivalent (based on the underlying) exchange-traded equity (index) options. The temporal extrapolation uncertainty amounts to an equity vega of 1.35, resulting in a value of approximately €4.5m as at 31 December 2017. For credit default swaps (CDS) and credit linked notes with a longer maturity than CDS spreads quoted on the market, a temporal extrapolation uncertainty of five basis points is assumed. As at 31 December 2017, this results in a value of €0.7m.

There are no publicly quoted market prices for the company shares listed as shareholdings in the financial investments item. The fair value of the company shares is determined using the dividend discount model, provided that these companies pay dividends on a sustained basis. Other company shares are measured on the basis of the net asset value approach. Following a review of the valuation models in 2017, any equity investments for which there are regular share buyback programmes were measured using the market method based on comparable transaction prices. There is currently no intention to sell these assets.

Under subordinated liabilities, DekaBank essentially reports positions of a hybrid capital nature which are allocated to level 3 due to the absence of indications of spreads tradable on the market. They are valued using the discounted cash flow model based on an interest rate which is checked at the relevant reporting date.

The fair values of amounts due to banks or due to customers relating to issuing business are determined using the present value method. The future cash flows of the liabilities are discounted at a risk-adjusted market rate that is based on DekaBank's credit risk. For the valuation of collateralised issues, the collateral structure is also taken into account. The interest rate for a comparable unsecured issue is adjusted according to the collateralisation category and percentage.

As at 31 December 2017, 100.0% of bonds and other fixed-income securities allocated to level 3 for which an external rating was available were rated as investment grade.

Performance of financial instruments in fair value hierarchy level 3

The movement in level 3 assets carried at fair value is shown in the table below. This is based on fair values without accrued interest:

€m	Debt securities, other fixed-interest securities and loan receivables	Shares and other non fixed-interest securities	Interest-rate-related derivatives	Share and other price-related derivatives	Financial investments (shareholdings)	Total
As at 1 January 2016	**2,395.1**	**–**	**15.7**	**7.6**	**–**	**2,418.4**
Additions through purchase	1,084.5	0.1	16.3	0.5	–	1,101.4
Disposals through sale	620.5	0.1	–	–	–	620.6
Maturity/repayments	548.6	–	–	6.2	–	554.8
Transfers						
To Level 3	332.0	–	0.8	1.9	–	334.7
From Level 3	195.6	–	15.7	1.4	–	212.7
Changes arising from measurement/disposals[1]						
Recognised in profit or loss	48.6	–	–	1.0	–	49.6
Recognised in other comprehensive income	–	–	–	–	–	–
As at 31 December 2016	**2,495.5**	**–**	**17.1**	**3.4**	**–**	**2,516.0**
Movement in unrealised gains or losses in respect of assets in the portfolio at the balance sheet date[2]	**39.0**	**–**	**–**	**1.0**	**–**	**40.0**
Additions through purchase	983.8	–	0.1	13.4	–	997.3
Disposals through sale	1,117.9	–	–	0.1	–	1,118.0
Maturity/repayments	368.5	–	15.8	0.7	–	385.0
Transfers						
To Level 3	258.7	–	–	0.5	30.6	289.8
From Level 3	257.0	–	0.8	–	–	257.8
Changes arising from measurement/disposals[1]						
Recognised in profit or loss	−22.5	–	0.6	−2.4	–	−24.3
Recognised in other comprehensive income	–	–	–	–	33.6	33.6
As at 31 December 2017	**1,972.1**	**–**	**1.2**	**14.1**	**64.2**	**2,051.6**
Movement in unrealised gains or losses in respect of assets in the portfolio at the balance sheet date[2]	**−34.2**	**–**	**0.6**	**−2.5**	**–**	**−36.1**

[1] Movements arising from the measurement/disposal of level 3 financial instruments are recognised through profit or loss within net interest income, trading profit or loss, profit or loss on financial instruments designated at fair value as well as revaluation reserve.

[2] Unrealised profits or losses from level 3 financial instruments are presented within net interest income, trading profit or loss and profit or loss on financial instruments designated at fair value.

The movement in level 3 liabilities carried at fair value is shown in the table below. This is based on fair values without accrued interest:

€m	Interest-rate-related derivatives	Share and other price-related derivatives	Issues	Total
As at 1 January 2016	**32.9**	**8.2**	**528.2**	**569.3**
Additions through purchase	2.2	0.8	23.8	26.9
Disposals through sale	–	0.1	–	0.1
Additions through issues	–	–	346.7	346.7
Maturity/repayments	–	7.1	184.5	191.6
Transfers				
To Level 3	64.1	–	52.7	116.8
From Level 3	14.0	0.5	72.2	86.8
Changes arising from measurement/disposals[1]				
Recognised in profit or loss	–38.3	–	–10.7	–49.0
Recognised in other comprehensive income	–	–	–	–
As at 31 December 2016	**123.5**	**1.3**	**705.3**	**830.1**
Movement in unrealised gains or losses in respect of liabilities in the portfolio at the balance sheet date[2]	**–38.3**	**–**	**–12.4**	**–50.7**
Additions through purchase	0.3	2.9	17.8	21.0
Disposals through sale	–	0.7	–	0.7
Additions through issues	–	–	516.5	516.5
Maturity/repayments	61.9	–	291.7	353.6
Transfers				
To Level 3	–	0.1	58.2	58.3
From Level 3	10.1	–	79.4	89.5
Changes arising from measurement/disposals[1]				
Recognised in profit or loss	37.3	–3.9	–18.0	15.4
Recognised in other comprehensive income	–	–	–	–
As at 31 December 2017	**14.5**	**7.5**	**944.7**	**966.7**
Movement in unrealised gains or losses in respect of liabilities in the portfolio at the balance sheet date[2]	**37.2**	**–3.9**	**–13.8**	**19.5**

[1] Movements arising from the measurement/disposal of level 3 financial instruments are recognised through profit or loss within net interest income, trading profit or loss and profit or loss on financial instruments designated at fair value.

[2] Unrealised profits or losses from level 3 financial instruments are presented within net interest income, trading profit or loss and profit or loss on financial instruments designated at fair value.

During the reporting period, positive market values from debt securities, other fixed-interest securities and loan receivables amounting to €257.0m and negative market values from issues/trading issues in the amount of €79.4m were transferred from level 3. Furthermore, positive market values from debt securities, other fixed-interest securities and loan receivables amounting to €258.7m and negative market values from issues/trading issues in the amount of €58.2m were migrated to level 3. This was due to a more detailed analysis of the market data used for valuation.

Measurement processes for financial instruments in fair value hierarchy level 3

For all transactions in the trading book and the banking book, DekaBank generally performs a daily valuation independent of trading operations, which provides the basis for the calculation of results. Responsibility for the valuation process lies with Risk Control, the different tasks being assigned to various specialist teams as part of the valuation process. The models used for theoretical valuation of transactions must undergo validation and initial acceptance before they are employed in the valuation process. Adequacy checks are carried out on a regular basis as part of normal operations. The main steps in the process are the provision of market data that is independent of trading activities, parametrisation, performance of the valuation and quality assurance. Each of these steps and processes has a team responsible for design and implementation.

Finance and Risk Control analyse and provide commentary on any notable changes in the valuation carried out independently of trading activities. The economic profits and losses determined on the basis of this independent valuation are made available to the trading units on a daily basis for the trading book and on at least a weekly basis for the banking book. To support the process, a committee has been established within Risk Control which plans and coordinates the medium to long-term development of the valuation process.

Valuation models are always used where no reliable external prices are available. External price quotations are obtained from established providers such as stock exchanges and brokers. Every price is subject to a monitoring process which assesses its quality and establishes whether it is appropriate for use in the valuation process. Unless the level of quality is assessed as inadequate, a theoretical valuation is carried out.

For financial instruments whose present value is determined using a valuation model, the prices needed to calibrate the model are either found directly, independently of trading, or are checked via an independent price verification process (IPV) to ensure they are consistent with the market, and are corrected if necessary. The valuation models used are either validated by Risk Control or implemented in Risk Control independently of trading. The appropriateness of the models is examined by Risk Control on a regular basis, and at least once a year. The results of the examination form the basis for a joint recommendation agreed between Risk Control, Finance and the trading units on whether the valuation models should continue to be used or require further development.

When new financial instruments are introduced, existing valuation processes are examined to determine whether they can be applied to the new instrument and modified or expanded if necessary. Valuation processes may be expanded to include new price sources or apply new valuation models. Where new models are introduced, Risk Control checks for model risks as part of the implementation and validation process. If model risks are present, a corresponding model reserve is taken into account.

67 Offsetting financial assets and liabilities

The following table contains disclosures concerning the effects of offsetting on the Deka Group's consolidated statement of financial position. Offsetting is currently only carried out for receivables and liabilities from genuine securities repurchase agreements and derivative transactions.

31 Dec 2017				Associated amounts not offset in the statement of financial position		
€m	Financial assets/ liabilities (gross)	Offset financial assets/ liabilities	Amount disclosed in the statement of financial position (net)	Collateral – securities	Cash – collateral	Net amount
Assets						
Receivables arising from securities repurchase agreements (eligible for offsetting)	9,068.5	4,448.7	4,619.8	4,619.8	–	–
Receivables arising from securities repurchase agreements (not eligible for offsetting)	15,720.5	–	15,720.5	15,720.5	–	–
Derivatives (eligible for offsetting)	6,199.0	6,149.6	49.4	–	49.4	–
Derivatives (not eligible for offsetting)	5,463.4	–	5,463.4	181.0	1,248.8	4,033.6
Total	**36,451.4**	**10,598.3**	**25,853.1**	**20,521.3**	**1,298.2**	**4,033.6**
Liabilities						
Liabilities arising from securities repurchase agreements (eligible for offsetting)	7,957.7	4,448.7	3,509.0	3,509.0	–	–
Liabilities arising from securities repurchase agreements (not eligible for offsetting)	3,369.8	–	3,369.8	3,369.8	–	–
Derivatives (eligible for offsetting)	5,793.3	5,734.7	58.6	58.6	–	–
Derivatives (not eligible for offsetting)	5,756.3	–	5,756.3	84.1	1,778.6	3,893.6
Total	**22,877.1**	**10,183.4**	**12,693.7**	**7,021.5**	**1,778.6**	**3,893.6**

31 Dec 2016				Associated amounts not offset in the statement of financial position		
€m	Financial assets/ liabilities (gross)	Offset financial assets/ liabilities	Amount disclosed in the statement of financial position (net)	Collateral – securities	Cash – collateral	Net amount
Assets						
Receivables arising from securities repurchase agreements (eligible for offsetting)	5,650.7	3,248.6	2,402.1	2,402.1	–	–
Receivables arising from securities repurchase agreements (not eligible for offsetting)	11,551.1	–	11,551.1	11,551.1	–	–
Derivatives (eligible for offsetting)	6,960.9	6,960.9	–	–	–	–
Derivatives (not eligible for offsetting)	7,539.2	–	7,539.2	184.3	1,209.2	6,145.7
Total	**31,701.9**	**10,209.5**	**21,492.4**	**14,137.5**	**1,209.2**	**6,145.7**
Liabilities						
Liabilities arising from securities repurchase agreements (eligible for offsetting)	4,734.7	3,248.6	1,486.1	1,486.1	–	–
Liabilities arising from securities repurchase agreements (not eligible for offsetting)	3,907.1	–	3,907.1	3,907.1	–	–
Derivatives (eligible for offsetting)	6,841.5	6,841.5	–	–	–	–
Derivatives (not eligible for offsetting)	8,673.7	–	8,673.7	125.9	3,011.5	5,536.3
Total	**24,157.0**	**10,090.1**	**14,066.9**	**5,519.1**	**3,011.5**	**5,536.3**

In principle, the Deka Group enters into securities repurchase agreements and derivative transactions eligible for offsetting on the basis of standardised framework contracts with central counterparties. Offsetting is carried out provided the offsetting agreements defined in the contracts are in accordance with the offsetting criteria under IAS 32.42.

Transactions that are subject to offsetting agreements but which do not meet the offsetting criteria under IAS 32.42, or which are carried out on a gross basis as part of normal business activities, are reported gross. In such cases, all claims and obligations are essentially only offset and settled on a net basis if the counterparty does not meet its payment obligations (liquidation netting).

68 Information on the quality of financial assets

Impaired exposure and provisions for loan losses by risk segment

The table below shows the gross carrying values of receivables and securities in the loans and receivables and held to maturity categories which have been written down by means of specific provisions or provisions for country risks. Off-balance sheet exposures which have been provided for in the form of a provision for individual risks are also included in the written-down gross or net exposure.

€m	Financial institu-tions	Transport and export finance	Energy and utility infrastruc-ture	Property risks	Public infrastruc-ture	Corpo-rates	Other	Total 31 Dec 2017	Total 31 Dec 2016
Impaired gross loan volume[1]	–	241.6	68.6	–	–	46.6	1.1	357.9	720.4
Collateral[2]	–	69.3	–	–	–	–	–	69.3	163.6
Impaired net loan volume[1]	–	172.5	68.6	–	–	46.6	1.1	288.8	556.8
Provisions for loan losses	4.0	127.9	16.4	1.8	0.3	37.3	1.0	188.7	388.1
Specific provisions	–	117.9	12.4	–	–	36.7	0.2	167.2	347.2
Provisions	–	0.4	0.1	–	–	–	0.2	0.7	0.3
Collective provisions for country risks	–	–	–	–	–	–	–	–	5.0
Collective provisions for creditworthiness risks	4.0	9.6	3.9	1.8	0.3	0.6	0.6	20.8	35.6

[1] Gross and net loan volumes impaired by specific and country valuation allowances. The figures shown represent the gross carrying value of the impaired financial assets at the respective balance sheet date.
[2] Recognition of measurable collateral after discounts

In addition to provisions for loan losses of €145.5m (previous year: €334.3m) in the lending business, risk provisions also include provisions for financial investments amounting to €43.2m (previous year: €53.8m).

As at the reporting date, the total amount of loans in default but not written down amounted to €109.3m (previous year: €44.5m).

Non-performing exposures

Non-performing exposures under the definition introduced by the EBA for supervisory reporting (FINREP) amounted to €433.6m (previous year: €807.3m). This relates to exposures that are more than 90 days overdue or for which the Bank expects that the borrower will not satisfy its loan obligations in full. It is also mandatory to classify exposures as non-performing where the CRR regulations (Article 178) require them to be classified as in default or where specific provisions have been made against them. In addition, exposures subject to successful restructuring measures may only be classified as performing after a recovery period of at least one year has elapsed.

The following table shows the breakdown of non-performing exposures by risk segment.

€m	Transport and export finance	Energy and utility infrastructure	Property risks	Public infrastructure	Corporates	Other	Total 31 Dec 2017	Total 31 Dec 2016
Non-performing exposures[1]	295.3	68.7	–	–	68.6	1.0	433.6	807.3
Collateral[2]	100.6	–	–	–	21.5	–	122.1	213.1
Provisions for loan losses	121.0	12.5	–	–	36.7	0.4	170.6	355.0
Specific provisions	117.9	12.4	–	–	36.7	0.2	167.2	347.2
Provisions	0.4	0.1	–	–	–	0.2	0.7	0.3
Collective provisions for country risks	–	–	–	–	–	–	–	4.0
Collective provisions for creditworthiness risks	2.7	–	–	–	–	–	2.7	3.5

[1] The figures shown represent the gross carrying value of the credit risk-bearing financial assets classified as non-performing.
[2] Recognition of measurable collateral after discounts

The amounts given for collateral are the values that the Deka Group calculates for internal purposes. These amounts are generally determined on the basis of the underlying market value, taking into account appropriate discounts for general resale risks and allowing for future volatility in market values. The amounts stated for guarantees and sureties are primarily based on the creditworthiness of the party providing the collateral. As at the balance sheet date, the market value of the physical collateral provided amounted to €184.7m (previous year: €297.7m) and guarantees and sureties received amounted to €7.1m (previous year: €20.0m).

Exposures with forbearance measures

The Deka Group concludes extension or restructuring agreements with borrowers experiencing financial difficulties if there is a prospect of recovery. Responsibility for the monitoring and management of such deferred or restructured exposures rests with the Monitoring Committee, in accordance with the general rules on default monitoring (see the risk report). Furthermore, creditworthiness-related restructuring measures or deferral agreements represent objective evidence of an impairment. Relevant exposures are tested individually for impairment, and where necessary specific provisions are recognised (see note [16]). Where restructuring measures entail such extensive contractual amendments that a new asset exists from an accounting perspective, this is presented on the statement of financial position as a disposal of the original asset and acquisition of a new asset. If there is a difference between the carrying value of the asset to be disposed of and the fair value of the asset acquired, the difference is posted directly to profit or loss.

Exposures are no longer classified as forborne if all of the following conditions are met:

- More than two years (probation period) have elapsed since the exposure ceased to be classified as non-performing.
- Regular payments for a significant amount of the interest and principal due have been made during the probation period.
- None of the exposures is more than 30 days overdue.

As at the balance sheet date, there were €363.7m (previous year: €798.8m) of deferred or restructured exposures requiring classification as forborne exposures under the EBA definition. Risk provisions in place in respect of these exposures amounted to €123.0m (previous year: €309.6m).

The following table shows the breakdown of forborne exposures by risk segment. The vast majority of forborne exposures have already been classified as non-performing exposures and are therefore also shown in the table of non-performing exposures by risk segment.

€m	Transport and export finance	Energy and utility infrastructure	Property risks	Public infrastructure	Corporates	Other	Total 31 Dec 2017	Total 31 Dec 2016
Forborne exposures[1]	267.4	74.3	–	–	22.0	–	363.7	798.8
Thereof: Performing	3.6	19.6	–	–	–	–	23.2	94.7
Thereof: Non-performing	263.8	54.7	–	–	22.0	–	340.5	704.1
Collateral[2]	86.3	–	–	–	21.5	–	107.8	196.8
Provisions for loan losses	116.5	6.5	–	–	–	–	123.0	309.6
Specific provisions	113.6	6.5	–	–	–	–	120.1	305.1
Collective provisions for creditworthiness risks	2.9	0.0	–	–	–	–	2.9	4.5

[1] The figures shown represent the gross carrying value of the credit risk-bearing financial assets classified as forborne.
[2] Recognition of measurable collateral after discounts; as at the balance sheet date, the market value of the physical collateral provided amounted to €166.1m (previous year €295.1m).

Key ratios for non-performing and forborne exposures

%	2017	2016
NPE ratio at the reporting date		
(Ratio of non-performing exposures to maximum credit risk)	0.48	0.96
NPE coverage ratio, including collateral, at the reporting date		
(Ratio of provisions for loan losses, including collateral, to non-performing exposures)	67.50	70.37
Forborne exposures ratio at the reporting date		
(Ratio of forborne exposures to maximum credit risk)	0.40	0.95

The maximum credit risk underlying the ratio of non-performing and forborne exposures is determined based on IFRS 7.36a, using credit risk-bearing financial assets and the corresponding off-balance sheet liabilities. Financial instruments measured at amortised cost are stated at gross carrying value, credit-risk-bearing financial instruments measured at fair value are stated at fair value, irrevocable lending commitments are stated at the respective amount of the commitment and sureties and guarantees are stated at nominal value. On this basis, as at the reporting date the maximum credit risk was €90.5bn (previous year: €84.1bn).

69 Derivative transactions

The Deka Group uses derivative financial instruments for trading purposes and to hedge interest rate risks, currency risks, and equity and other price risks. The following table shows the portfolio of derivative financial instruments by type of risk hedged and by contract type:

	Nominal value		Positive fair values[1]		Negative fair values[1]	
€m	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Interest rate risks						
OTC products						
Interest rate swaps	495,360.7	433,632.2	9,646.0	11,945.0	8,936.5	10,953.3
Forward rate agreements	19,425.0	24,291.0	0.3	1.4	0.3	1.3
Interest rate options						
Purchases	14,782.8	9,683.3	146.0	242.7	88.5	63.4
Sales	14,370.0	12,805.2	192.3	148.1	349.1	441.6
Caps, floors	12,057.9	8,633.9	39.3	45.5	38.4	27.7
Other interest rate contracts	1,744.6	2,268.5	2.1	23.0	44.1	198.8
Exchange traded products						
Interest rate options	12.0	–	0.0	–	0.0	–
Interest rate futures/options	18,615.6	10,768.4	6.6	2.4	2.8	5.0
Sub-total	**576,368.6**	**502,082.5**	**10,032.6**	**12,408.1**	**9,459.7**	**11,691.1**
Currency risks						
OTC products						
Foreign exchange future contracts	16,935.8	14,870.0	184.5	226.0	207.7	217.2
(Interest rate) currency swaps	10,310.4	10,163.9	534.4	364.5	543.7	1,323.6
Sub-total	**27,246.2**	**25,033.9**	**718.9**	**590.5**	**751.4**	**1,540.8**
Share and other price risks						
OTC products						
Share options						
Purchases	824.8	948.0	141.8	336.5	–	–
Sales	6,053.7	6,388.7	–	–	315.3	725.7
Credit derivatives	9,350.9	10,866.0	120.1	93.7	59.8	77.1
Other forward contracts	3,830.2	2,674.0	11.0	52.6	67.2	15.6
Exchange traded products						
Share options	15,945.5	18,530.7	644.6	1,021.1	899.0	1,469.9
Share futures	2,092.1	2,813.4	12.0	12.2	6.8	56.4
Sub-total	**38,097.2**	**42,220.8**	**929.5**	**1,516.1**	**1,348.1**	**2,344.7**
Total	**641,712.0**	**569,337.2**	**11,681.0**	**14,514.7**	**11,559.2**	**15,576.6**
Net amount disclosed in the statement of financial position			**5,512.8**	**7,479.4**	**5,814.9**	**8,600.9**

[1] Fair values are shown before offsetting against variation margin paid or received

The lower amount carried in the statement of financial position compared with fair values is due to allowance for the variation margin from transactions with central counterparties. Within assets, the variation margin received reduced the fair values by a total of around €6.2bn (previous year: €7.0bn). Conversely, the variation margin paid reduced fair values within liabilities by a total of around €5.7bn (previous year: €7.0bn).

The following table shows nominal values and positive and negative market values for derivative transactions by counterparty:

	Nominal value		Positive fair values[1]		Negative fair values[1]	
€m	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Banks in the OECD	257,296.2	204,051.8	4,728.4	5,898.4	5,323.3	7,120.7
Public sector entities in the OECD	10,067.3	8,117.4	949.6	1,171.0	147.4	172.2
Other counterparties	374,348.5	357,168.0	6,003.0	7,445.3	6,088.5	8,283.7
Total	**641,712.0**	**569,337.2**	**11,681.0**	**14,514.7**	**11,559.2**	**15,576.6**

[1] Fair values are shown before offsetting against variation margin paid or received

70 Breakdown by remaining maturity

Remaining maturity is the time between the reporting date and the contractually agreed maturity of the receivable or liability or the time at which part-payments fall due. Financial assets and liabilities at fair value were in principle recognised according to contractual maturity. However, financial instruments in the held for trading sub-category were deemed to have a maximum remaining maturity of one year due to the intention to trade. Equity instruments were allocated to the due on demand and indefinite term maturity bracket. Financial investments (shareholdings) that serve business operations on an ongoing basis as part of ordinary business activity but do not have a contractually agreed maturity are not included in this breakdown.

€m	31 Dec 2017	31 Dec 2016	Change
Asset items			
Due from banks			
Due on demand and indefinite term	3,269.4	3,534.5	–265.1
Up to 3 months	5,944.3	4,418.9	1,525.4
Between 3 months and 1 year	7,125.7	6,326.5	799.2
Between 1 year and 5 years	8,811.4	4,862.3	3,949.1
More than 5 years	1,245.6	1,511.7	–266.1
Due from customers			
Due on demand and indefinite term	1,211.8	1,603.4	–391.6
Up to 3 months	1,569.2	1,967.7	–398.5
Between 3 months and 1 year	3,318.2	4,287.9	–969.7
Between 1 year and 5 years	9,370.7	10,147.9	–777.2
More than 5 years	5,180.6	4,834.0	346.6
Financial assets at fair value			
Thereof: Non-derivative assets			
Due on demand and indefinite term	3,562.4	2,103.7	1,458.7
Up to 3 months	1,961.1	2,679.3	–718.2
Between 3 months and 1 year	6,790.7	9,277.0	–2,486.3
Between 1 year and 5 years	13,042.2	12,245.0	797.2
More than 5 years	1,136.6	1,147.4	–10.8
Thereof: Derivative assets			
Up to 3 months	449.7	456.2	–6.5
Between 3 months and 1 year	3,690.6	5,770.0	–2,079.4
Between 1 year and 5 years	588.1	330.0	258.1
More than 5 years	764.0	894.6	–130.6
Positive market values of derivative hedging instruments			
Up to 3 months	0.7	0.2	0.5
Between 3 months and 1 year	0.9	0.3	0.6
Between 1 year and 5 years	2.8	6.0	–3.2
More than 5 years	16.0	22.2	–6.2
Financial investments			
Due on demand and indefinite term	0.0	0.1	–0.1
Up to 3 months	89.1	148.1	–59.0
Between 3 months and 1 year	1,005.6	479.8	525.8
Between 1 year and 5 years	876.3	1,720.5	–844.2
More than 5 years	1,755.5	581.4	1,174.1

€m	31 Dec 2017	31 Dec 2016	Change
Liability items			
Due to banks			
Due on demand and indefinite term	1,988.7	2,487.9	–499.2
Up to 3 months	7,397.3	6,545.0	852.3
Between 3 months and 1 year	5,279.6	4,511.5	768.1
Between 1 year and 5 years	3,620.3	2,605.6	1,014.7
More than 5 years	951.9	1,212.4	–260.5
Due to customers			
Due on demand and indefinite term	15,311.2	11,772.4	3,538.8
Up to 3 months	6,064.4	6,582.3	–517.9
Between 3 months and 1 year	2,216.7	1,530.1	686.6
Between 1 year and 5 years	1,616.8	1,990.7	–373.9
More than 5 years	1,451.8	1,543.7	–91.9
Securitised liabilities			
Up to 3 months	7,944.9	2,655.2	5,289.7
Between 3 months and 1 year	1,703.7	1,239.7	464.0
Between 1 year and 5 years	3,876.5	6,039.8	–2,163.3
More than 5 years	709.7	1,141.4	–431.7
Financial liabilities at fair value			
Thereof: Non-derivative liabilities			
Due on demand and indefinite term	120.0	289.3	–169.3
Up to 3 months	1,775.3	1,477.7	297.6
Between 3 months and 1 year	17,271.8	14,892.5	2,379.3
Between 1 year and 5 years	900.9	845.5	55.4
More than 5 years	111.7	448.0	–336.3
Thereof: Derivative liabilities			
Up to 3 months	771.2	563.5	207.7
Between 3 months and 1 year	4,272.0	6,399.2	–2,127.2
Between 1 year and 5 years	300.6	967.4	–666.8
More than 5 years	459.2	636.4	–177.2
Negative market values of derivative hedging instruments			
Up to 3 months	1.1	3.9	–2.8
Between 3 months and 1 year	0.6	1.2	–0.6
Between 1 year and 5 years	7.6	19.9	–12.3
More than 5 years	2.7	9.4	–6.7
Subordinated capital			
Up to 3 months	48.1	206.1	–158.0
Between 3 months and 1 year	–	26.4	–26.4
Between 1 year and 5 years	76.6	77.7	–1.1
More than 5 years	802.4	808.3	–5.9

Other disclosures

71 Capital management

The objectives of capital management are to ensure adequate capital to carry out the business strategy determined by the Board of Management, to achieve an appropriate return on equity and to comply with regulatory capital requirements (for more information, see note [72]).

For economic risk-bearing capacity analysis purposes, "economic capital" means the risk capacity as defined in the risk strategy. In principle, DekaBank determines the overall risk across all significant risk types that impact income and also includes those risks not taken into consideration for regulatory purposes, for example business risk. Overall risk is measured as the amount of capital that is highly likely to be sufficient to cover losses from all main risk exposures in a one-year period at any time. DekaBank uses the value-at-risk approach (VaR) in order to quantify individual risks on a uniform basis and to aggregate them as an indicator for overall risk.

To assess risk-bearing capacity on a differentiated basis, DekaBank distinguishes between the risk capacity, the maximum risk appetite and the risk appetite. Under an economic risk-bearing capacity analysis, the risk capacity essentially consists of equity capital according to IFRS, earnings components and positions of a hybrid capital nature (subordinated capital) and is available in its entirety as a formal overall risk limit to guarantee the Bank's risk-bearing capacity. Based on this, a capital buffer is reserved for stress scenarios, which corresponds at a minimum to the level of subordinated capital components. The primary control parameter and hence the basis of the risk capital allocated as risk appetite is referred to as the maximum risk appetite, which results from deducting the buffer for stress scenarios from the risk capacity.

Compliance with regulatory capital requirements is managed primarily through the Common Equity Tier 1 capital ratio. For the utilisation of risk-weighted assets (RWAs) – an essential component of this key ratio – guidelines are stipulated for the next three years with regard to both the Group and the individual business divisions, as part of the annual planning process. Within the framework of this overall plan, in principle the business divisions must not exceed the target RWAs specified in the medium-term planning. In the event that the target is exceeded, measures to reduce the RWAs are examined. In addition, in order to assess capital adequacy, regular internal credit risk stress tests are conducted on the RWAs.

When managing regulatory capital requirements, particular attention is paid to assessing future regulatory developments. This includes analysing current recommendations from supervisory committees and proposed legislation on an ongoing basis, and assessing the impact of such proposals on capital and RWA positions. The findings are incorporated into the annual planning process.

72 Regulatory capital (own funds)

Since 1 January 2014 regulatory capital and capital adequacy have been calculated in accordance with the regulation on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation – CRR) and pursuant to the directive on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (Capital Requirements Directive IV – CRD IV).

The figures presented below are shown in accordance with the transitional provisions set out in CRR/CRD IV as well as pursuant to full application of the new regulations. Equity is calculated based on the figures from the IFRS consolidated financial statements. The composition of capital and reserves is shown in the following table:

	31 Dec 2017		31 Dec 2016	
€m	CRR/CRD IV (without transitional provisions)	CRR/CRD IV (with transitional provisions)	CRR/CRD IV (without transitional provisions)	CRR/CRD IV (with transitional provisions)
Subscribed capital	286	286	286	286
Less repurchased Common Equity Tier 1 items	95	76	95	57
Open reserves	4,445	4,445	4,310	4,310
Other comprehensive income	132	109	131	89
Prudential filters	107	105	4	1
Deductions from Common Equity Tier 1 items	253	202	389	234
Common Equity Tier 1 (CET 1) capital	**4,145**	**4,238**	**3,978**	**4,216**
Additional Tier 1 capital instruments	474	474	474	474
Silent capital contributions	–	26	–	31
Deductions from Additional Tier 1 items	–	63	–	157
Additional Tier 1 (AT 1) capital	**474**	**437**	**474**	**348**
Tier 1 capital	**4,619**	**4,676**	**4,451**	**4,564**
Subordinated liabilities	823	823	838	838
Deductions from Tier 2 items	–	6	–	36
Tier 2 (T2) capital	**823**	**817**	**838**	**801**
Own funds	**5,442**	**5,492**	**5,289**	**5,366**

The increase in Tier 1 capital is mainly due to the reinvestment of profits from the 2016 financial year. The reduction in relation to Tier 2 capital is attributable to regulatory amortisation in accordance with Article 64 of the CRR.

Credit risk is essentially determined according to the Internal Ratings-Based approach. The capital charges for specific market risk and CVA risk are determined using standard methods. General market risk is determined using an internal model. Operational risk is measured using the advanced measurement approach (AMA). Each of the aforementioned risk factors must be backed by own funds. The items subject to a capital charge are shown in the following table:

	31 Dec 2017		31 Dec 2016	
€m	CRR/CRD IV (without transitional provisions)	CRR/CRD IV (with transitional provisions)	CRR/CRD IV (without transitional provisions)	CRR/CRD IV (with transitional provisions)
Credit risk	15,568	15,568	15,038	15,038
Market risk	5,127	5,127	4,478	4,478
Operational risk	3,242	3,242	2,887	2,887
CVA risk	950	950	1,411	1,411
Risk-weighted assets (total risk exposure amount)	**24,886**	**24,886**	**23,813**	**23,813**

The adequacy of the capital and reserves is to be calculated by expressing Common Equity Tier 1 capital ratio, Tier 1 capital (Core capital ratio) and own funds (Total capital ratio) as a percentage of the total risk exposure amount. The table below shows the key ratios for the Deka Group:

	31 Dec 2017		31 Dec 2016	
%	CRR/CRD IV (without transitional provisions)	CRR/CRD IV (with transitional provisions)	CRR/CRD IV (without transitional provisions)	CRR/CRD IV (with transitional provisions)
Common Equity Tier 1 capital ratio	16.7	17.0	16.7	17.7
Tier 1 capital ratio	18.6	18.8	18.7	19.2
Total capital ratio	21.9	22.1	22.2	22.5

Regulatory own funds requirements were met at all times during the reporting period. The ratios for the Deka Group are considerably higher than the statutory minimum requirements.

73 Contingent and other liabilities

The off-balance sheet liabilities of the Deka Group essentially consist of potential future liabilities.

€m	31 Dec 2017	31 Dec 2016	Change
Irrevocable lending commitments	1,283.8	702.3	581.5
Other liabilities	62.9	102.7	–39.8
Total	**1,346.7**	**805.0**	541.7

Irrevocable lending commitments refer to credit lines granted but not drawn down and term credit lines. The amounts stated reflect the potential liabilities if the credit lines granted were to be used in full. The risk provision reported on the statement of financial position for off-balance sheet liabilities has been deducted from the respective amounts.

As in the previous year, other financial liabilities include payment obligations of €0.1m and subsequent funding obligations of €5.1m (previous year: €5.1m) to unconsolidated companies or companies outside the Group. There is an additional funding obligation for the deposit guarantee scheme of the Landesbanken and Girozentralen of €57.7m (previous year: €97.6m). By 2024, the assets held in the guarantee scheme must be built up to the statutory target level of 0.8% of the covered deposits held by members of the guarantee scheme. Each year the guarantee scheme collects contributions from its members for this purpose.

The bank guarantees provided by DekaBank are deemed to be financial guarantees under IFRS, which are stated net in accordance with IAS 39. The nominal amount of the guarantees in place as at the reporting date was €0.1bn (previous year: €0.1bn).

In a circular dated 17 July 2017, the Federal Ministry of Finance (BMF) presented rules for the tax treatment of share trades around the dividend record date, and noted, *inter alia*, that certain transaction types may fall under the scope of section 42 of the German Tax Code (*Abgabenordnung* – AO). Based on a preliminary analysis, it cannot be ruled out that some share trades carried out by DekaBank around the dividend record date in the years concerned will be re-examined by the tax authorities in the light of the said BMF circular. However, DekaBank sees no convincing reason to believe that share trades it transacted around the dividend record date will fall under these rules and therefore considers it unlikely that a final claim will be made in this regard.

Consequently, there are no grounds to create provisions for potential financial burdens arising from the possible refusal by tax authorities to allow relief from capital yields tax (*Kapitalertragsteuer*). Since a degree of uncertainty remains as to how the tax authorities and fiscal courts will ultimately assess the share trades concerned, it cannot be wholly ruled out that an adverse financial impact of around €64m may arise in this regard.

74 Assets transferred or received as collateral

Assets transferred as collateral for the Group’s liabilities are shown in the following table:

€m	31 Dec 2017	31 Dec 2016	Change
Carrying value of transferred collateral			
Under *Pfandbrief* Act	3,924.9	4,160.8	–235.9
For refinancing purposes with Deutsche Bundesbank	1,591.8	1,062.4	529.4
From transactions on German and foreign futures exchanges	2.1	–	2.1
From repurchase agreements	726.0	989.3	–263.3
From securities lending agreements	4,047.2	4,103.7	–56.5
From tri-party transactions	3,165.0	3,284.9	–119.9
From other transactions	262.8	146.6	116.2
Loan and securities collateral	**13,719.8**	**13,747.7**	–27.9
Cash collateral relating to securities lending and repurchase agreements	649.5	613.7	35.8
Cash collateral relating to derivative transactions	1,905.3	3,138.5	–1,233.2
Cash collateral	**2,554.8**	**3,752.2**	–1,197.4
Total	**16,274.6**	**17,499.9**	–1,225.3

Collateral received for repurchase agreements, securities lending transactions and other securities transactions that may be re-pledged or resold even if the party providing the collateral does not default amounted to €62.3bn (previous year: €57.1bn). Of this total, €38.9bn (previous year: €36.1bn) was resold or re-pledged.

75 Financial instruments transferred but not derecognised

The Deka Group transfers financial assets while retaining the material risks and rewards arising from these assets. Such transfers take place mainly in the context of genuine securities repurchase and securities lending transactions. The assets continue to be reported in the consolidated statement of financial position.

€m	31 Dec 2017	31 Dec 2016	Change
Carrying value of non-derecognised securities in relation to			
Genuine repurchase agreements			
Held to maturity	108.1	21.7	86.4
Financial assets at fair value	559.9	968.2	–408.3
Securities lending transactions			
Held to maturity	65.5	27.0	38.5
Financial assets at fair value through profit or loss	418.8	1,569.9	–1,151.1
Other transfers not constituting economic disposal			
Loans and receivables	563.3	558.7	4.6
Held to maturity	207.6	–	207.6
Financial liabilities at fair value	23.7	2.1	21.6
Total	**1,946.9**	**3,147.6**	–1,200.7

Liabilities of €1.5bn (previous year: €1.5bn) were recorded for financial instruments transferred but not derecognised.

76 Letter of comfort

Except in the case of political risk, DekaBank shall ensure that DekaBank Deutsche Girozentrale Luxembourg S.A. can meet its obligations. DekaBank Deutsche Girozentrale Luxembourg S.A. has in turn issued letters of comfort in favour of

- Deka International S.A., Luxembourg and
- International Fund Management S.A., Luxembourg.

77 Information on interests in subsidiaries

Composition of the Deka Group

In addition to DekaBank (the parent company), the consolidated financial statements include a total of 10 (previous year: 10) German and 6 (previous year: 7) foreign affiliated enterprises in which DekaBank holds a direct or indirect majority of the voting rights. The scope of consolidation also encompasses 7 (previous year: 9) structured entities controlled the by Deka Group.

A total of 15 (previous year: 15) affiliated companies controlled by the Deka Group were not consolidated, because they are of minor significance for the presentation of the Group’s financial position and financial performance. The interests held in these subsidiaries are reported under financial investments (see note [47]). Where they are of minor significance to the consolidated financial statements, structured entities are also not consolidated (see list of shareholdings in note [79]). To determine their significance for the presentation of the financial position and financial performance of the Group, investment funds are assessed using both qualitative and quantitative criteria. Units in unconsolidated investment funds are recognised at fair value through profit or loss. These are shown on the statement of financial position under financial assets at fair value (note [45]).

Significant restrictions

Significant restrictions on the Group's ability to access or use assets and settle liabilities arise in particular as a result of the contractual, legal and regulatory requirements that apply to financial institutions (see note [72] "Regulatory capital (own funds)" and note [74] with regard to restrictions associated with the pledging of cash, loans or securities as collateral to cover Group liabilities under, for example, genuine repurchase agreements, securities lending transactions and over-the-counter derivatives transactions).

Banks are also obliged to maintain mandatory deposits in accounts held with their national central banks (minimum reserve requirement). The extent of the mandatory minimum reserve is determined by the central banks (see note [41]).

Interests in joint arrangements and associates

DekaBank has interests in three jointly controlled entities and one associated company. Equity investments in the joint ventures S-PensionsManagement GmbH and Dealis Fund Operations GmbH (in liquidation) are accounted for in the consolidated financial statements using the equity method. Two affiliated companies were not consolidated despite the fact that DekaBank exercises significant influence over them, because they are of minor significance for the presentation of the financial position and financial performance of the Group.

Joint ventures and associates which have been accounted for using the equity method can be found in the list of shareholdings (see note [79]).

The table below presents an overview of the summarised financial information for all joint ventures that are considered to be individually immaterial and that are accounted for using the equity method. The amounts shown relate to the Group's holdings in these companies. In principle, the equity method is applied on the basis of the last available financial statements of the investee, provided that these are not more than three months old.

	Joint ventures[1]	
€m	**31 Dec 2017**	**31 Dec 2016**
Carrying value of equity participation	**16.0**	**6.9**
Profit or loss from continuing business operations	–	1.3
Profit or loss after tax from discontinued business operations	11.2	–
Other comprehensive income	–2.1	–1.2
Total income[2]	**9.1**	**0.1**

[1] At the time of the preparation of DekaBank's consolidated financial statements, no consolidated financial statements were available for S-PensionsManagement GmbH for 2017. For this reason, measurement under the equity method was performed on the basis of forecast results which take account of impact of any significant transactions and other events that have arisen since the last reporting date of S-PensionsManagement GmbH, or are expected to occur.

[2] Does not include distributions, which are disclosed in net interest income

78 Information on interests in unconsolidated structured entities

According to the definition in IFRS 12, an entity is classified as structured if it has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity.

The Deka Group engages in business relationships with structured entities as part of its ordinary business activities. Structured entities are often characterised by their restricted activities and a narrow and well-defined business objective. Furthermore, a structured entity may also be characterised by the absence of sufficient equity to finance its activities without subordinated financial support.

The Deka Group is deemed to have an interest in an unconsolidated structured entity if companies in the Deka Group are exposed to variable returns from a structured entity's activities as a result of either contractual or non-contractual involvement with that entity, but where the entity concerned does not require consolidation under the provisions of IFRS 10. An interest can be evidenced by the holding of debt or equity instruments, liquidity arrangements, guarantees and various derivative financial instruments via which the Bank takes on risks arising from the structured entity. For the purposes of IFRS 12, an interest in an unconsolidated structured entity does not generally exist solely because of a typical customer-supplier relationship between Deka Group companies and a structured entity.

The Deka Group has relationships with entities that were classified as unconsolidated structured entities based on the definition under IFRS 12 and according to criteria set internally by the Group. Unconsolidated structured entities involved in the following business activities were identified:

Investment funds
Part of the Deka Group's core business involves providing securities and real estate investments to private and institutional investors. As a result, companies in the Deka Group play a role, directly or indirectly, in setting up fund structures as part of their ordinary business activities, and are involved in determining the purpose and design of such structures. In addition, the Group's activities cover the whole of the usual value chain for fund business. In return, the Group receives appropriate commission, for example in the form of management and custodial fees. The Group also invests in holdings in investment funds owned by the Group in the context of start-up financing, thereby providing those funds with liquidity. Investment funds are therefore considered to be structured entities within the meaning of IFRS 12. Funds are primarily financed by issuing unit certificates (equity). To a limited extent, funds can also take up loans. Borrowings are generally secured against the assets held within the fund. Fund assets held in Group-owned and external investment funds amount to €354.4bn (previous year: €248.2bn). This amount includes all fund assets and also the fund assets of third parties in which the Deka Group has an interest within the meaning of IFRS 12, irrespective of the percentage of the Deka Group's unit holding. Fund assets calculated exclusively for the purposes of the IFRS 12 disclosures do not correspond to the key indicator total customer assets used for management purposes.

Securitisation companies (structured capital market credit products)
The Group has investments in a number of securitisation companies. These include non-strategic securitisation products acquired by the Bank in the former Liquid Credits portfolio, which has been allocated to non-core business since 2009 and is being wound down while safeguarding assets. The issuing companies are generally financed by issuing tradable securities whose value is dependent on the performance of the vehicle's assets or which are collateralised using the vehicle's assets. For all securitisations held by DekaBank, funding at matching maturities is in place for the assets held by the securitisation company. The vast majority of securitisation products at DekaBank are in the designated at fair value category and are reported under financial assets at fair value on the statement of financial position; this means that the earnings performance of these securitisations is recognised in full through profit or loss in the Group's consolidated financial statements.

The table below provides an overview of the maximum risk of loss to which the Deka Group is exposed from the securitisation positions it holds, shown by type of securitisation transaction and by seniority of the tranche held. In addition, the table includes potential losses to be absorbed by other creditors who rank above Deka Group. The total volume of issued securities from the securitisation companies classified as structured amounts to €1.9bn (previous year: €3.5bn).

€m	Subordinated interest 31 Dec 2017	Subordinated interest 31 Dec 2016	Mezzanine interest 31 Dec 2017	Mezzanine interest 31 Dec 2016	Senior interest 31 Dec 2017	Senior interest 31 Dec 2016	Most Senior interest 31 Dec 2017	Most Senior interest 31 Dec 2016
ABS								
Maximum default risk	–	–	–	2.2	–	–	–	0.5
Potential losses of prior-ranking creditors[1]	–	–	–	19.8	–	–	–	–
CLO								
Maximum default risk	–	–	38.0	114.2	9.2	23.3	–	9.1
Potential losses of prior-ranking creditors[1]	–	–	76.9	261.8	–	–	–	–
CMBS								
Maximum default risk	–	–	11.3	24.2	2.4	4.5	–	2.3
Potential losses of prior-ranking creditors[1]	–	–	157.8	228.4	–	–	–	–
RMBS								
Maximum default risk	–	–	91.7	89.6	1.9	9.0	13.9	23.2
Potential losses of prior-ranking creditors[1]	19.8	21.2	116.8	122.3	–	23.5	–	–

[1] Nominal values

Lending business

According to the definition, if a company is founded specifically to finance or operate the assets for which a loan is made, and the design of that company is such that it is not controlled by means of voting or similar rights, then this constitutes a structured entity for DekaBank. A holding in a structured entity may also exist if rights that are contractually agreed as part of the loan agreement (for example intellectual property or trademark rights) are converted into co-determination rights in the event of deteriorating creditworthiness. An operating company can, for example, become a structured entity if relevant business activities start to be governed predominantly by the provisions of the loan agreement. As part of the classification performed in accordance with IFRS 12, structured entities were identified within the transport and export finance, energy and utility infrastructure, and real estate risk segments. The financing concerned is generally collateralised by charges on property, aircraft mortgages, ship mortgages, and sureties and guarantees. When determining the size of the financing classified as structured, the balance sheet totals of the current available financial statements or the market value of the (co-)financed asset were used. This amounts to €1.6bn (previous year: €2.0bn).

The table below shows the carrying values of assets and liabilities recognised on the statement of financial position that are related to interests in unconsolidated structured entities. The table also includes the maximum possible exposure to loss associated with these interests.

	Investment funds		Lending business[1]		Securitisation entities[1]	
€m	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Asset items						
Due from customers	1,638.5	1,126.3	411.9	267.6	–	–
Financial assets at fair value	2,545.6	1,318.5	–	0.2	167.3	300.0
Financial investments	–	–	4.4	4.7	1.1	2.1
Other assets	0.4	–	–	–	–	–
Total asset items	**4,184.5**	**2,444.8**	**416.3**	**272.5**	**168.4**	**302.1**
Liability items						
Due to customers	12,722.1	9,781.8	0.6	0.0	–	–
Financial liabilities at fair value	570.4	862.7	–	–	–	–
Other liabilities	2.0	–	–	–	–	–
Total liability items	**13,294.5**	**10,644.5**	**0.6**	**0.0**	**–**	**–**
Contingent and other liabilities						
Irrevocable lending commitments	–	39.9	0.6	10.4	–	–
Other liabilities	–	–	5.1	6.2	–	–
Total contingent and other liabilities	**–**	**39.9**	**5.7**	**16.6**	**–**	**–**
Maximum risk of loss	**4,184.5**	**2,484.7**	**422.0**	**289.1**	**168.4**	**302.1**

[1] Including loan loss provision

The maximum exposure to loss sets out the highest possible loss that the Bank could sustain in connection with its interests in unconsolidated structured entities. The figure presented does not take into account the probability of such a loss being incurred.

- The maximum possible exposure to loss from interests in unconsolidated structured entities that arise as a result of on-balance-sheet transactions corresponds to the carrying value or fair value of the respective balance sheet item.
- According to the definition, the maximum possible exposure to loss from interests in unconsolidated structured entities that arise from off-balance-sheet transactions, for example from guarantees or lending commitments, corresponds to the maximum guaranteed amount, or the amount of the potential liability that would arise if the credit line that is extended were to be fully utilised.

In addition, provisions are established for investment funds with formal guarantees (see note [58]).

The maximum exposure to loss is a gross figure, i.e. it does not take into account the effects of collateral received or hedging transactions.

In connection with interests in unconsolidated structured entities, the Deka Group received interest income, commission income and income from the revaluation and disposal of interests in unconsolidated structured entities during the year under review.

Sponsored unconsolidated structured entities

All circumstances must be considered when determining whether a company from the Deka Group should be categorised as the sponsor of a structured entity. An unconsolidated structured entity in which the Bank has no interest as defined by IFRS 12 is regarded as sponsored if it was established for the benefit of a company in the Deka Group, and the Group has played an active role in determining the purpose and design of the unconsolidated structured entity. The Group is also considered to be a sponsor if a name used by the unconsolidated structured entity – for example its company name or the name of a product – is connected to a company in the Deka Group.

No relationships with sponsored unconsolidated structured entities existed during the year under review. As at 31 December 2017, there were no sponsored unconsolidated entities.

79 List of shareholdings

DekaBank Deutsche Girozentrale, Frankfurt/Berlin, is entered in Commercial Register A at the District Court of Frankfurt am Main under number HRA 16068. The following information on shareholdings is a supplementary disclosure required under section 315e of the German Commercial Code. No comparative information is therefore presented in respect of the previous period.

Consolidated subsidiaries (affiliated companies):

Name, registered office	Share of equity %
bevestor GmbH, Frankfurt/Main	100.00
Deka Beteiligungs GmbH, Frankfurt/Main	100.00
Deka Far East Pte. Ltd., Singapore	100.00
Deka Immobilien GmbH, Frankfurt/Main	100.00
Deka Immobilien Investment GmbH, Frankfurt/Main	100.00
Deka Immobilien Luxembourg S.A., Luxembourg	100.00
Deka International S.A., Luxembourg	100.00
Deka Investment GmbH, Frankfurt/Main	100.00
Deka Real Estate Services USA Inc., New York	100.00
DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg	100.00
International Fund Management S.A., Luxembourg	100.00
Landesbank Berlin Investment GmbH, Berlin	100.00
S Broker Management AG, Wiesbaden	100.00
S Broker AG & Co. KG, Wiesbaden	100.00
WestInvest Gesellschaft für Investmentfonds mbH, Düsseldorf	99.74
WIV GmbH & Co. Beteiligungs KG, Frankfurt/Main	94.90[1]

[1] 5.1% is held by WIV GmbH & Co. Beteiligungs KG.

Consolidated subsidiaries (structured entities):

Name, registered office	Share in fund assets %
A-DGZ 2-FONDS, Frankfurt/Main	100.00
A-DGZ 5-FONDS, Frankfurt/Main	100.00
A-Treasury 2000-FONDS, Frankfurt/Main	100.00
A-Treasury 93-FONDS, Frankfurt/Main	100.00
DDDD-FONDS, Frankfurt/Main	100.00
S Broker 1 Fonds, Frankfurt/Main	100.00
Masterfonds S Broker, Frankfurt/Main	100.00

Joint ventures and associated companies consolidated at equity:

Name, registered office	Share of equity %	Equity €'000[1]	Total of profit or loss €'000[1]
Joint ventures			
S-PensionsManagement GmbH, Cologne	50.00	26,442.6	21,812.4
Dealis Fund Operations GmbH i.L., Frankfurt/Main	50.00	18,587.0	943.5

[1] Amounts reported in financial statements for the year ended 31 December 2016

Joint ventures and associated companies not consolidated at equity:

Name, registered office	Share of equity %
Joint ventures	
Deka-Neuburger Institut für wirtschaftsmathematische Beratung GmbH, Frankfurt/Main	50.00
Associated companies	
DPG Deutsche Performancemessungs-Gesellschaft für Wertpapierportfolios mbH, Frankfurt/Main	22.20

Unconsolidated subsidiaries (affiliated companies):

Name, registered office	Share of equity %
Datogon S.A., Luxembourg	100.00
Deka Immobilien Beteiligungsgesellschaft mbH, Frankfurt/Main	100.00
Deka Investors Spezial InvAG m.v.K. und TGV, Frankfurt/Main	
Teilgesellschaftsvermögen Deka Investors Unternehmensaktien	100.00
Deka Real Estate Lending k.k. i.L., Tokyo[1]	100.00
Deka Treuhand GmbH, Frankfurt/Main	100.00
Deka Treuhand Erwerbsgesellschaft mbH, Frankfurt/Main	100.00
Deka Vermögensverwaltungs GmbH, Frankfurt/Main	100.00
Deka Verwaltungs GmbH, Frankfurt/Main	100.00
Deka Vorratsgesellschaft 03 mbH, Frankfurt/Main	100.00
Deka Vorratsgesellschaft 04 mbH, Frankfurt/Main	100.00
Deka Vorratsgesellschaft 05 mbH, Frankfurt/Main	100.00
Europäisches Kommunalinstitut S.à.r.l., Luxembourg	100.00
LBG Leasing Beteiligungs-GmbH, Frankfurt/Main	100.00
Perfeus S.A., Luxembourg	100.00
Privates Institut für quantitative Kapitalmarktforschung der DekaBank GmbH, Frankfurt/Main	100.00
WIV Verwaltungs GmbH, Frankfurt/Main	94.90

[1] Deconsolidation in 2017

Unconsolidated structured entities:

Name, registered office	Fund assets €m	Share of equity/ fund assets %
Deka-BR 45, Frankfurt/Main	6.6	100.00
Deka-MultiFactor Global Corporates, Luxembourg	35.0	100.00
Deka-MultiFactor Global Government, Luxembourg	15.0	100.00
Deka-MultiFactor Global Corporates HY, Luxembourg	25.1	100.00
Deka-MultiFactor Emerging Markets Corporates, Luxembourg	20.0	100.00
Deka-Relax 30, Frankfurt/Main	0.5	99.66
Teilgesellschaftsvermögen Deka Darlehen, Frankfurt/Main	78.3	98.63
Deka-Immobilien PremiumPlus-Private Banking, Luxembourg	5.0	94.51
Deka-Relax 50, Frankfurt/Main	0.5	93.91
Deka Deutsche Boerse EUROGOV® Germany 10+ UCITS ETF, Frankfurt/Main	46.8	80.61
Deka-Relax 70, Frankfurt/Main	0.7	71.67
Deka Eurozone Rendite Plus 1-10 UCITS ETF, Frankfurt/Main	25.7	70.59
Deka MSCI Europe ex EMU UCITS ETF, Frankfurt/Main	30.7	69.08
Deka-BasisStrategie Aktien, Frankfurt/Main	19.3	65.11
Deka MSCI Japan UCITS ETF, Frankfurt/Main	50.9	57.46
Deka-EuroFlex Plus, Luxembourg	113.5	48.82
Deka-Globale Renten High Income, Frankfurt/Main	54.7	46.68
Deka-PB ManagerMandat, Frankfurt/Main	82.2	40.82
Deka-ImmobilienNordamerika, Frankfurt/Main	159.3	34.09

80 Related party disclosures

The Deka Group has business dealings with related parties. These include DekaBank's shareholders, subsidiaries that are not consolidated on materiality grounds, joint ventures, associates and their respective subsidiaries, individuals in key positions and their relatives, and companies controlled by these individuals. For the purposes of this disclosure, unconsolidated own mutual funds and special funds where the Deka Group's holding exceeds 10.0% as at the reporting date are shown as subsidiaries, associates or other related parties in accordance with their equity holding.

Natural persons in key positions deemed to be related parties under IAS 24 are the members of the Board of Management and Administrative Board of DekaBank as the parent company. Personnel expenses in respect of the persons concerned are shown in the table below:

	Board of Management		Administrative Board	
€m	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Short-term benefits	3.2	3.2	0.7	0.7
Post-employment benefits	2.0	1.8	–	–
Other long-term benefits	2.4	2.6	–	–
Total	**7.6**	**7.6**	**0.7**	**0.7**

Remuneration to employees' representatives on the Administrative Board made separately from their Administrative Board activities was at current market terms.

Transactions are carried out with related parties under normal market terms and conditions as part of the ordinary business activities of the Deka Group. These relate, inter alia, to loans, call money, time deposits and derivatives. The liabilities of the Deka Group to mutual funds and special funds essentially comprise balances with banks from the temporary investment of liquid funds. The tables below show the extent of these transactions.

Business relationships with shareholders of DekaBank and unconsolidated subsidiaries:

	Shareholders		Subsidiaries	
€m	**31 Dec 2017**	**31 Dec 2016**	**31.12.2017**	**31 Dec 2016**
Asset items				
Due from customers	45.0	45.0	1.5	5.5
Financial assets at fair value	–	–	5.2	28.0
Other assets	–	–	0.3	0.5
Total asset items	**45.0**	**45.0**	**7.0**	**34.0**
Liability items				
Due to customers	46.0	39.7	32.6	49.3
Financial liabilities at fair value	–	–	1.2	–
Other liabilities	–	–	0.2	0.1
Total liability items	**46.0**	**39.7**	**34.0**	**49.4**

Business dealings with joint ventures, associated companies and other related parties:

	Joint ventures/ associated companies		Other related parties	
€m	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Asset items				
Due from customers	–	0.3	–	–
Financial assets at fair value	–	–	2.6	2.9
Other assets	0.5	0.2	0.4	0.3
Total asset items	**0.5**	**0.5**	**3.0**	**3.2**
Liability items				
Due to customers	55.0	115.6	636.9	399.7
Financial liabilities at fair value	33.4	33.3	0.8	0.2
Total liability items	**88.4**	**148.9**	**637.7**	**399.9**

81 Average number of staff

	2017			2016		
	Male	Female	Total	Male	Female	Total
Full-time employees	2,502	1,065	3,567	2,443	1,033	3,476
Part-time and temporary employees	168	684	852	152	655	807
Total	**2,670**	**1,749**	**4,419**	**2,595**	**1,688**	**4,283**

82 Remuneration of Board members

€	31 Dec 2017	31 Dec 2016
Total remuneration of active Board members		
Board of Management	5,318,673	5,317,132
Administrative Board	709,417	711,833
Total remuneration of former Board members and their surviving dependents		
Board of Management	4,848,031	5,350,116
Provisions for pensions for former Board members and their dependents	60,512,832	61,289,500

The emoluments to active members of the Board of Management presented above include all remuneration and benefits in kind paid in the respective financial year, including variable components that are attributable to previous years and are thus dependent on business performance in earlier periods.

No loans or advances were granted to members of the Board of Management or Administrative Board. No guarantees or other commitments were entered into in favour of such persons.

In the 2017 financial year, variable remuneration elements that are dependent on future performance amounting to €2.4m (previous year: €2.5m) were committed to current and former members of the Board of Management.

Variable remuneration components that are not paid out in the year of the commitment depend on the sustainable performance of the Deka Group and are deferred until the three years following the commitment year. Sustainable components of remuneration granted are subject to a two-year holding period and are paid out after that period has elapsed.

Distributable earnings, corporate value, the economic result, payments to savings bank alliance partners, net sales performance and the individual earnings contribution of the Board Members are used to evaluate sustainability.

Total emoluments include deferred variable remuneration components from previous years payable to active members of the Board of Management amounting to €2.0m and to former members of the Board of Management amounting to €1.3m. The entitlement of active board members comprises €0.5m for the 2016 financial year, €0.7m for the 2015 financial year, €0.3m for the 2014 financial year, €0.4m for the 2013 financial year and €0.1m for the 2012 financial year.

83 Auditor's fees

The following fees for the auditors of the consolidated financial statements were recorded as expenses in the reporting year:

€m	31 Dec 2017	31 Dec 2016	Change
Fees for			
Year-end audit services	3.5	2.5	1.0
Non-audit services			
Other assurance services	0.7	1.0	–0.3
Tax advisory services	0.2	0.1	0.1
Other services	–	–	–
Total	**4.4**	**3.6**	0.8

84 Additional miscellaneous information

Post balance sheet events
No major developments of particular significance occurred after the 2017 balance sheet date.

Recommendation regarding appropriation of net profit
The proposed appropriation of the net profit for the 2017 financial year of €72,281,961.40 is as follows:

- Distribution of a dividend amounting to €72,281,961.40, i.e. 37.7% on existing shares in the Bank's subscribed capital (€191,729,340.56) that are entitled to dividends as at 31 December 2017.

The consolidated financial statements were approved for publication on 21 February 2018 by the Board of Management of DekaBank.

Assurance of the Board of Management

We declare that, to the best of our knowledge, the consolidated financial statements prepared in accordance with the applicable reporting standards convey a true and fair view of the financial position and financial performance of the Group and that the management report conveys a true and fair view of the business performance including the business results and position of the Group and suitably presents the material risks and opportunities and likely development of the Group.

Frankfurt am Main, 21 February 2018

DekaBank
Deutsche Girozentrale

The Board of Management

Rüdiger

Dr. Stocker

Better

Dr. Danne

Müller

Independent Auditor's Report

To DekaBank Deutsche Girozentrale AöR, Berlin/Frankfurt am Main

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of DekaBank Deutsche Girozentrale AöR, Berlin/Frankfurt am Main, and its subsidiaries (the Group), which comprise the statement of profit or loss and other comprehensive income for the financial year from January 1, 2017 to December 31, 2017, the balance sheet as of December 31, 2017, and the statement of changes in equity and the statement of cash flows for the financial year from January 1, 2017 to December 31, 2017, and notes to the consolidated financial statements. In addition, we have audited the group management report of DekaBank Deutsche Girozentrale AöR for the financial year from January 1, 2017 to December 31, 2017.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2017, and of its financial performance for the financial year from January 1, 2017 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Opinions

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

Key Audit Matters in the Audit of the Consolidated Financial Statements

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

Measurement of financial assets valued at fair value
For the accounting policies applied, please refer to notes 9, 17 and 55 in the notes to the consolidated financial statements.

THE CONSOLIDATED FINANCIAL STATEMENT RISK

As of December 31, 2017, the Deka Group recognized "financial assets valued at fair value" totaling EUR 32.0 billion. At 34.1% of total assets this represents a significant item on the assets side for DekaBank and contains securities and derivatives, for which there is a quoted price on an active market and those for which a valuation method was used based on observable and/or unobservable market data (this corresponds to the fair value categories 1 to 3 of IFRS 13).

The financial statement risk could lie in particular in no appropriate market prices, valuation methods and models as well as the valuation parameters incorporated as part of this being used when calculating the fair value in line with IFRS 13.

OUR AUDIT APPROACH

Based on our risk assessment and evaluation of the risks of material misstatement, we developed an audit approach, which encompasses both controls testing as well as substantive audit procedures. We therefore performed the following audit procedures, among others:

For our assessment, we inspected documentation and conducted surveys, and also tested the functionality of key controls. In particular we evaluated the key processes and controls of DekaBank regarding

- the procurement and validation of the independent verification of quoted prices and observable market data,
- the validation of the valuation method and models,
- the fair value measurement of securities and derivatives as well as
- the calculation and recording of valuation adjustments to determine the fair value

in respect of their adequacy and effectiveness. In addition, we also audited the effectiveness of the general IT controls in the IT systems that are in use.

With the involvement of internal KPMG experts (valuation specialists) we carried out, inter alia, the following substantive audit procedures for selected portfolios of securities and derivatives as of December 31, 2017:

- Performance of an independent price verification in the event that there is a quoted price on an active market.
- Where there are no quoted prices on an active market, we carried out a re-evaluation using an independent valuation methods, parameters and models.

OUR OBSERVATIONS

Based on the results of the controls testing and the substantive audit procedures we conclude that the market prices, valuation methods and models used by DekaBank to value the financial assets valued at fair value are reasonable and the parameters used were properly derived.

The determination and recognition of net commission income from the fund business
For the accounting policies used, please refer to notes 5 and 33 in the notes to the consolidated financial statements.

THE CONSOLIDATED FINANCIAL STATEMENT RISK

The net commission income from the Deka Group's fund business is, in terms of amount, a key component of both the overall net commission income as well as the net income of the DekaBank Group. In the notes to the consolidated financial statements for the 2017 financial year the Deka Group recognized commission income from the fund business of EUR 2,093.5 million and commission expenses from the fund business of EUR 1,049.3 million.

The Deka Group generates commission income from the administration and/or sale of investment fund units when the preconditions pursuant to IAS 18 are satisfied. Accordingly, commission expenses, which mainly arise from remuneration to sales partners, are recognized with the commission income with which they are associated.

The invoicing system and posting logic for commission income and expenses from the fund business of the Deka Group is multi-faceted. This multi-faceted nature is reflected in particular in the different types of commission in the fund business as well as the settlement of acquisition, issuance, invoicing and payment transactions between funds, the asset management companies of the Deka Group and DekaBank as well as the savings banks (*Sparkassen*).

The consolidated financial statement risk could arise due to net commission income from the fund business not being properly presented in the consolidated financial statements due to the inappropriate determination and recognition of the corresponding commission income and expenses.

OUR AUDIT APPROACH

Based on our risk assessment and evaluation of the risks of material misstatement, we developed an audit approach, which encompasses both controls testing as well as substantive audit procedures. We therefore performed the following audit procedures, among others:

In order to audit the net commission income from the fund business we evaluated the key internal accounting-related processes and controls pertaining to

- the proper order entry
- the recognition and maintenance of fund and custodial account master data and
- the presentation for accounting purposes of commission income and expenses from the fund business

in respect of their adequacy and effectiveness. In addition, we also audited the effectiveness of the general IT controls in the IT systems that in use.

In the course of our substantive audit procedures we verified the proper entry into the accounts of commission income and expenses by reconciling the invoices with the underlying documents, which represent the basis for the determination and recognition of commission income and expenses, for individual transactions.

In addition, we also carried out plausibility assessments of ratios and industry trends in the course of our analytical audit procedures.

OUR OBSERVATIONS

Based on the results of the controls testing and substantive audit procedures we conclude that the commission income and expenses from the fund business have been properly determined and recognized.

Recognition of tax claims from share trading transactions settled around the dividend date
For the accounting policies applied by DekaBank Deutsche Girozentrale AöR regarding tax refunds received and tax claims from share trading transactions settled around the dividend date from the years 2013 to

2015, please refer to the notes to the consolidated financial statements (note 23, 73) and the group management report in the "Operational risks" section.

THE CONSOLIDATED FINANCIAL STATEMENT RISK

For assessment periods from 2013 to 2015 that are not yet statute-barred, DekaBank obtained dividends from share trading transactions settled around the dividend date and reported the withholding tax due therefrom for tax crediting or a tax refund and reported corresponding tax refund claims as assets or had already received the tax refund. Due to the existing legal uncertainty regarding the final tax assessment on basis of the BMF circular dated July 17, 2017 on the part of the tax authorities and tax jurisdiction, the recognition of tax claims resulting from such transactions could be subject to uncertainty for DekaBank. The assessment made by DekaBank regarding the risk of the tax authorities refusing to recognize these tax claims requires judgement. Thus, the financial statement risk could be that if the tax claims were subsequently not recognized, the current tax assets recognized pursuant to IAS 12 (line item: current income tax assets) would be impaired, then a provision pursuant to IAS 12 would have to be recognized for repaying tax refunds already received and the notes disclosures on the contingent liabilities would not correspond fully to the requirements set out in the accounting standards.

OUR AUDIT APPROACH

Based on our risk assessment and evaluation of the risks of material misstatement, we have developed an audit approach, which encompasses both a process audit as well as substantive audit procedures. We therefore performed the following audit procedures, among others, with the involvement of our employees who are specialists in tax law:

For our assessment we conducted discussions with the Board of Management and employees from the departments concerned and gained an understanding of the procedure carried out by DekaBank to derive to an estimation regarding this matter. We assessed and critically scrutinized the appropriateness of the assumptions requiring judgement used by DekaBank, in particular with regard to the complete identification and grouping of share trading transactions around the dividend date. In addition, based on the assessment made by DekaBank and using external opinions we verified the assessment of the risk that the tax authorities will subsequently refuse to recognize the tax claims from the types of share transactions identified around the dividend date.

Using data analyses prepared by DekaBank of the share trading transactions settled around the dividend date we verified the amount of the tax claims resulting from this and in particular the allocation of the individual offsetting items from the withholding tax for the periods from 2013 to 2015 by comparing the data analysis prepared by DekaBank with supplementary analyses and evidence.

Furthermore, we evaluated the completeness and appropriateness of the corresponding explanatory disclosure notes on contingent liabilities in the notes to the consolidated financial statements with regard to the requirements set out by accounting standards.

OUR OBSERVATIONS

Based on our audit procedures we conclude that the assessment carried out by DekaBank of the tax risks stemming from the tax authorities possibly not recognizing tax claims that have been made is reasonable. The presentation of tax claims and the resulting risks including the explanatory disclosure notes on contingent liabilities in the notes to the consolidated financial statements was prepared in line with the requirements set out by respective accounting standards.

Other Information

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

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

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Board of Management and the Administrative Board for the Consolidated Financial Statements and the Group Management Report

The Board of Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the Board of Management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

The Administrative Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the Board of Management and the reasonableness of estimates made by the Board of Management and related disclosures.
- Conclude on the appropriateness of the Board of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the Board of Management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Board of Management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation
We were elected as group auditor by the annual general meeting on March 30, 2017. We were engaged by the Administrative Board on June 16, 2017. We have been the group auditor of the DekaBank without interruption since the financial year 2013.

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

In addition to the financial statement audit, we have provided to group entities services that are not disclosed in the consolidated financial statements or in the group management report.

In addition to the consolidated financial statements, we audited the annual financial statements of DekaBank and carried out a review of the half-year financial report. In addition, we audited the financial statements of various subsidiaries. Furthermore, we also performed other assurance services, including inter alia custody account audits/audits pursuant to the German Securities Trading Act [WpHG], an assurance engagement pursuant to ISAE 3402 (e.g. investment compliance testing), issuing of letters of comfort as well as other assurance services required by supervisory law and tax advisory services for Asset Management.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Markus Fox.

Frankfurt am Main, 22 February 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

Pukropski	Fox
Wirtschaftsprüfer	Wirtschaftsprüfer

Other information

Shareholders, subsidiaries and associated companies

Shareholders of DekaBank *(as of 1 March 2018)*

DSGV ö.K.[1]	**50%**
thereof:	
Savings Banks Association Baden-Wuerttemberg	7.71%
Rhineland Savings Banks and Giro Association	6.56%
Savings Banks Association Lower Saxony	6.46%
Savings Banks Association Bavaria	6.32%
Savings Banks Association Westphalia-Lippe	6.18%
Savings Banks and Giro Association Hesse-Thuringia	5.81%
Savings Banks Association Rhineland-Palatinate	3.21%
Savings Banks Association Berlin/Landesbank Berlin	1.90%
East German Savings Banks Association	1.83%
Savings Banks and Giro Association for Schleswig-Holstein	1.78%
Savings Banks Association Saar	1.37%
Hanseatic Savings Banks and Giro Association	0.91%
Deka Erwerbsgesellschaft mbH & Co. KG	**50%**
thereof:	
Savings Banks Association Bavaria	8.40%
Savings Banks Association Baden-Wuerttemberg	8.14%
East German Savings Banks Association	8.00%
Rhineland Savings Banks and Giro Association	7.66%
Savings Banks and Giro Association Hesse-Thuringia	5.47%
Savings Banks Association Westphalia-Lippe	3.69%
Savings Banks Association Lower Saxony	2.04%
Savings Banks Association Rhineland-Palatinate	1.87%
Savings Banks Association Berlin/Landesbank Berlin	1.57%
Savings Banks and Giro Association for Schleswig-Holstein	1.48%
Hanseatic Savings Banks and Giro Association	1.27%
Savings Banks Association Saar	0.43%

[1] in relation to voting stake (subject to rounding differences)

Subsidiaries and associated companies of DekaBank[2] *(as of 1 March 2018)*

Asset management securities business division (formerly Securities business division)	
Deka Investment GmbH, Frankfurt/Main	100.0%
DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg	100.0%
Deka International S.A., Luxembourg	100.0%
International Fund Management S.A., Luxembourg	100.0%
DekaTreuhand GmbH, Frankfurt/Main	100.0%
Privates Institut für quantitative Kapitalmarktforschung der DekaBank GmbH, Frankfurt/Main	100.0%
Landesbank Berlin Investment GmbH, Berlin	100.0%
S-Pensionsmanagement GmbH, Cologne	50.0%
Sparkassen Pensionsfonds AG, Cologne	50.0%
Sparkassen Pensionskasse AG, Cologne	50.0%
Deka Neuburger Institut für wirtschaftsmathematische Beratung GmbH, Frankfurt/Main	50.0%
Dealis Fund Operations GmbH i.L., Frankfurt/Main	50.0%

Heubeck AG, Cologne	30.0%
DPG Deutsche Performancemessungs-Gesellschaft für Wertpapierportfolios mbH, Frankfurt/Main	22.2%
Dealis Fund Operations S.A. i.L., Luxembourg	5.0%
Erste-Sparinvest Kapitalanlagegesellschaft mbH, Vienna	2.8%
Asset management services business division (new since 1 January 2017)	
bevestor GmbH, Frankfurt/Main	100.0%
S Broker AG & Co. KG, Wiesbaden	100.0%
S Broker Management AG, Wiesbaden	100.0%
Asset management real estate business division (formerly: Real estate business division)	
Deka Immobilien Investment GmbH, Frankfurt/Main	100.0%
Deka Immobilien GmbH, Frankfurt/Main	100.0%
Deka Immobilien Luxembourg S.A., Luxembourg	100.0%
Deka Vermögensverwaltungs GmbH, Frankfurt/Main	100.0%
Deka Verwaltungs GmbH, Frankfurt/Main	100.0%
Deka Immobilien Beteiligungsgesellschaft mbH, Frankfurt/Main	100.0 %
Deka Investors Spezialinvestmentaktiengesellschaft mit veränderlichem Kapital und Teilgesellschaftsvermögen, Frankfurt/Main	100.0%
WestInvest Gesellschaft für Investmentfonds mbH, Düsseldorf	99.7%
WIV GmbH & Co. Beteiligungs KG, Frankfurt/Main	94.9%
Deka-S-PropertyFund No. 1 Beteiligungs GmbH & Co. KG, Frankfurt/Main	11.6%
Financing business division	
Deka Real Estate Lending K. K. i.L., Tokyo	100.0%
Global Format GmbH & Co. KG, Munich	18.8%
HELICON Verwaltungsgesellschaft mbH & Co. Immobilien KG, Pullach	8.3%
RSU Rating Service Unit GmbH & Co. KG, Munich	6.5%
SIZ GmbH, Bonn	5.0%
True Sale International GmbH, Frankfurt/Main	7.7%
Corporate Centre Corporate Development	
Deka Beteiligungs GmbH, Frankfurt/Main	100.0%
Deka Treuhand Erwerbsgesellschaft mbH, Frankfurt/Main	100.0%
Liquiditäts-Konsortialbank GmbH i.L., Frankfurt/Main	2.1%

[2] Held directly or indirectly. The Group has further holdings which are, however, of minor significance.

Administrative Board and Board of Management of DekaBank

(as of 1 March 2018)

Administrative Board

Georg Fahrenschon
(to 23 November 2017)
Chairman
President of the German Savings Banks and Giro Association e. V., Berlin,
President of the German Savings Banks and Giro Association – public law entity, Berlin
Chairman of the General and Nominating Committee
Chairman of the Remuneration Supervision Committee

Helmut Schleweis
(since 1 January 2018)
Chairman
President of the German Savings Banks and Giro Association e. V., Berlin,
President of the German Savings Banks and Giro Association – public law entity, Berlin
Chairman of the General and Nominating Committee
Chairman of the Remuneration Supervision Committee

Helmut Schleweis
(to 31 December 2017)
First Deputy Chairman
Chairman of the Management Board of Sparkasse Heidelberg, Heidelberg
First Deputy Chairman of the General and Nominating Committee
First Deputy Chairman of the Remuneration Supervision Committee
Member of the Audit and Risk Committee

Thomas Mang
Second Deputy Chairman
President of the Savings Banks Association Lower Saxony, Hanover
Chairman of the Risk and Credit Committee
Second Deputy Chairman of the General and Nominating Committee
Second Deputy Chairman of the Remuneration Supervision Committee

Further representatives selected by the Shareholders' Meeting

Michael Bräuer
Chairman of the Management Board of Sparkasse Oberlausitz-Niederschlesien, Zittau
Member of the General and Nominating Committee
Member of the Remuneration Supervision Committee

Michael Breuer
President of the Rhineland Savings Banks and Giro Association, Düsseldorf
Member of the Audit and Risk Committee
(to 31 March 2017)
Chairman of the Audit Committee
(since 1 April 2017)

Ingo Buchholz
(since 1 January 2018)
Chairman of the Management Board of Kasseler Sparkasse, Kassel

Prof. Dr. Liane Buchholz
(since 1 April 2017)
President of the Savings Banks Association Westfalen-Lippe, Münster
Member of the Audit Committee
Member of the General and Nominating Committee
Member of the Remuneration Committee

Rainer Burghardt
(to 30 June 2017)
Chairman of the Management Board of Kreissparkasse Herzogtum Lauenburg, Ratzeburg

Carsten Claus
(to 30 September 2017)
Chairman of the Management Board of Kreissparkasse Böblingen, Böblingen
Member of the Audit and Risk Committee

Dr. Michael Ermrich
Managing President of the East German Savings Banks Association, Berlin

Dr. Johannes Evers
Chairman of the Management Board of Berliner Sparkasse and President of the Savings Banks Association Berlin, Berlin
Deputy Chairman of the Risk and Credit Committee

Andreas Fohrmann
(since 15 July 2017)
Chairman of the Management Board of Sparkasse Südholstein, Münster

Dr. Rolf Gerlach
(to 31 March 2017)
President of the Savings Banks Association Westphalia-Lippe, Münster
Chairman of the Audit and Risk Committee
Member of the General and Nominating Committee
Member of the Remuneration Supervision Committee

Gerhard Grandke
Managing President of the Savings Banks and Giro Association Hesse-Thuringia, Frankfurt/Main
Member of the General and Nominating Committee
Member of the Remuneration Supervision Committee

Dr. Christoph Krämer
Chairman of the Management Board of Sparkasse Iserlohn, Iserlohn
Member of the Risk and Credit Committee
(since 1 April 2017)

Beate Läsch-Weber
President of the Savings Banks Association Rhineland-Palatinate, Budenheim

Ludwig Momann
Chairman of the Management Board of Sparkasse Emsland, Meppen
Member of the Risk and Credit Committee

Dr. Ulrich Netzer
President of the Savings Banks Association Bavaria, Munich

Frank Saar
(since 1 April 2017)
Member of the Management Board of Sparkasse Saarbrücken, Saarbrücken
Member of the Risk and Credit Committee

Peter Schneider
President of the Savings Banks Association Baden-Wuerttemberg, Stuttgart
Member of the General and Nominating Committee
Member of the Remuneration Supervision Committee

Georg Sellner
(to 30 September 2017)
Chairman of the Management Board of Stadt- und Kreis-Sparkasse Darmstadt, Darmstadt
Deputy Chairman of the Audit and Risk Committee

Walter Strohmaier
Chairman of the Management Board of Sparkasse Niederbayern-Mitte, Straubing
Member of the General and Nominating Committee
Member of the Audit Committee
Member of the Remuneration Supervision Committee

Dr. jur. Harald Vogelsang
Spokesman of the Management Board of Hamburger Sparkasse AG, Hamburg
President of the Hanseatic Savings Banks and Giro Association, Hamburg

Burkhard Wittmacher
(from 1 October 2017)
Chairman of the Management Board of Sparkasse Esslingen-Nürtingen, Esslingen

Alexander Wüerst
Chairman of the Management Board of Kreissparkasse Köln, Cologne
Member of the General and Nominating Committee
Member of the Remuneration Supervision Committee

Employee Representatives appointed by the Staff Committee

Michael Dörr
Chairman of the Staff Committee, DekaBank Deutsche Girozentrale, Frankfurt/Main

Erika Ringel
Member of the Staff Committee, DekaBank Deutsche Girozentrale, Frankfurt/Main

Representatives appointed by the Federal Organisation of Central Municipal Organisations (in an advisory capacity)

Helmut Dedy
Chief Executive Officer of the German Association of Cities, Berlin

Prof. Dr. Hans-Günter Henneke
Managing Member of the Presiding Board of the German County Association, Berlin

Roland Schäfer
Mayor of the City of Bergkamen and President of the German Association of Towns and Municipalities, Berlin
Member of the General and Nominating Committee
Member of the Remuneration Supervision Committee

Board of Management

Michael Rüdiger
CEO

Dr. Georg Stocker
Deputy CEO

Manuela Better
Member of the Board of Management

Dr. Matthias Danne
Member of the Board of Management

Martin K. Müller
Member of the Board of Management

Executive Manager

Manfred Karg

Seats on supervisory bodies

Michael Rüdiger
Deka Investment GmbH, Frankfurt/Main:
Chairman of the Supervisory Board
Landesbank Berlin Investment GmbH, Berlin:
Member of the Supervisory Board from 1 January 2018 to 14 January 2018;
Chairman of the Supervisory Board from 15 January 2018
Evonik Industries AG, Essen:
Member of the Supervisory Board
Deka Immobilien GmbH, Frankfurt/Main:
Member of the Supervisory Board
Liquiditäts-Konsortialbank GmbH i.L., Frankfurt/Main:
Chairman of the Administrative Board

Dr. Georg Stocker
S Broker AG & Co. KG, Wiesbaden:
Chairman of the Supervisory Board
S Broker Management AG, Wiesbaden:
Chairman of the Supervisory Board

Manuela Better
Deutsche EuroShop AG, Hamburg:
Member of the Supervisory Board
S Broker AG & Co. KG, Wiesbaden:
Deputy Chairwoman of the Supervisory Board
S Broker Management AG, Wiesbaden:
Member of the Supervisory Board
Landesbank Berlin Investment GmbH, Berlin:
Deputy Chairwoman of the Supervisory Board
Deka Investment GmbH, Frankfurt/Main:
Deputy Chairwoman of the Supervisory Board
Deka Immobilien Investment GmbH, Frankfurt/Main:
Deputy Chairwoman of the Supervisory Board
WestInvest Gesellschaft für Investmentfonds mbH, Düsseldorf:
Deputy Chairwoman of the Supervisory Board
Deka Immobilien GmbH, Frankfurt/Main:
Deputy Chairwoman of the Supervisory Board
DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg:
Member of the Supervisory Board

Dr. Matthias Danne
Deka Immobilien Investment GmbH, Frankfurt/Main:
Chairman of the Supervisory Board
WestInvest Gesellschaft für Investmentfonds mbH, Düsseldorf:
Chairman of the Supervisory Board
Deka Immobilien GmbH, Frankfurt/Main:
Chairman of the Supervisory Board
DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg:
Deputy Chairman of the Administrative Board
S-PensionsManagement GmbH, Cologne:
Deputy Chairman of the Supervisory Board
Sparkassen Pensionskasse AG, Cologne:
Deputy Chairman of the Supervisory Board
Sparkassen Pensionsfonds AG, Cologne:
Chairman of the Supervisory Board
Deka Treuhand Erwerbsgesellschaft mbH, Frankfurt/Main:
Managing Director

Martin K. Müller
DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg:
Chairman of the Administrative Board
S Broker AG & Co. KG, Wiesbaden:
Member of the Supervisory Board to 31 December 2017
Sparkassen Rating und Risikosysteme GmbH, Berlin:
Member of the Supervisory Board
Dealis Fund Operations GmbH i.L., Frankfurt/Main:
Member of the Shareholder Committee
Deka Treuhand Erwerbsgesellschaft mbH, Frankfurt/Main:
Managing Director

Fund-related committees

Asset Management Securities business division

Advisory Board Retail
(as of 1 March 2018)

Chairman

Dr. Harald Langenfeld
Chairman of the Management Board of Stadt- und Kreissparkasse Leipzig, Leipzig

Deputy Chairman

Matthias Nester
Chairman of the Management Board of Sparkasse Koblenz, Koblenz

Members

Jochen Brachs
Chairman of the Management Board of Sparkasse Hochschwarzwald, Titisee-Neustadt

Gerhard Döpkens
Chairman of the Management Board of Sparkasse Gifhorn-Wolfsburg, Gifhorn

Thomas Feußner
(to 31 December 2017)
Chairman of the Management Board of Sparkasse Miltenberg-Obernburg, Miltenberg

Wilfried Groos
Chairman of the Management Board of Sparkasse Siegen, Siegen

Markus Groß
Chairman of the Management Board of Sparkasse Neunkirchen, Neunkirchen

Arendt Gruben
Chairman of the Management Board of Sparkasse Schwarzwald-Baar, Villingen-Schwenningen

Stefan Grunwald
Chairman of the Management Board of Stadt-Sparkasse Solingen, Solingen

Michael Horn
Deputy Chairman of the Management Board of Landesbank Baden-Württemberg, Stuttgart

Wolfgang Kirschbaum
Chairman of the Management Board of Sparkasse Minden-Lübbecke, Minden

Oliver Klink
Chairman of the Management Board of Taunus-Sparkasse, Bad Homburg v.d.H.

Marlies Mirbeth
Member of the Management Board of Stadtsparkasse München, Munich

Tanja Müller– Ziegler
Member of the Management Board of Berliner Sparkasse, Berlin

Walter Paulus-Rohmer
Member of the Management Board of Stadt- und Kreissparkasse Erlangen Höchstadt Herzogenaurach, Erlangen

Bettina Poullain
(since 1 January.2017)
Member of the Management Board of Hamburger Sparkasse AG, Hamburg

Hubert Rist
Chairman of the Management Board of Sparkasse Pfullendorf-Meßkirch, Pfullendorf

Oliver Saggau
Member of the Management Board of Sparkasse zu Lübeck AG, Lübeck

Hartmut Wnuck
Chairman of the Management Board of Stadtsparkasse Mönchengladbach, Mönchengladbach

Advisory Board Institutional
(as of 1 March 2018)

Chairman

Joachim Hoof
Chairman of the Management Board of Ostsächsische Sparkasse Dresden, Dresden

Deputy Chairman

Michael Bott
Chairman of the Management Board of Sparkasse Waldeck-Frankenberg, Korbach

Members

Felix Angermann
Chairman of the Management Board of Sparkasse Zwickau, Zwickau

Peter Becker
Chairman of the Management Board of Sparkasse Herford, Herford

Christian Bonnen
Member of the Management Board of Kreissparkasse Köln, Cologne

Frank Brockmann
Member of the Management Board of Hamburger Sparkasse AG, Hamburg

Walter Fichtel
(to 31 December 2017)
Deputy Chairman of the Management Board of Kreissparkasse München Starnberg Ebersberg, Munich

Andreas Götz
(since 1 October 2017)
Chairman of the Management Board of Kreissparkasse Ostalb, Cham

Stefan Lukai
Member of the Management Board of Sparkasse Essen, Essen

Thomas Lützelberger
Chairman of the Management Board of Sparkasse Schwäbisch Hall-Crailsheim, Schwäbisch Hall

Heiko Nebel
Chairman of the Management Board of Stadtsparkasse Burgdorf, Burgdorf

Frank Opitz
(since 1 January 2018)
Member of the Management Board of Sparkasse Fürstenfeldbruck, Fürstenfeldbruck

Hubert Riese
Member of the Management Board of Kreissparkasse Eichsfeld, Worbiss

Stephan Scholl
Chairman of the Management Board of Sparkasse Pforzheim Calw, Pforzheim

Christoph Schulz
Chairman of the Management Board of Braunschweigische Landessparkasse, Brunswick

Rolf Settelmeier
Chairman of the Management Board of Stadtsparkasse Augsburg, Augsburg

Carl Trinkl
(to 30 September 2017)
Chairman of the Management Board of Kreissparkasse Ostalb, Aalen

Franz Wittmann
Chairman of the Management Board of Landkreis Cham, Cham

Norbert Wolf
Member of the Management Board of Sparkasse Dortmund, Dortmund

Corporate Bodies of Subsidiaries – Asset Management Securities business division

Deka Investment GmbH

Members of the Supervisory Board
(as of 1 March 2018)

Chairman

Michael Rüdiger
CEO of DekaBank Deutsche Girozentrale, Frankfurt/Main

Deputy Chairwoman

Manuela Better
Member of the Management Board of DekaBank Deutsche Girozentrale, Frankfurt/Main

Members

Dr. Fritz Becker
Wehrheim

Joachim Hoof
Chairman of the Management Board of Ostsächsischen Sparkasse Dresden, Dresden

Jörg Münning
Chairman of the Management Board of LBS Westdeutsche Landesbausparkasse, Münster

Peter Scherkamp
Munich

Board of Management

Chairman

Stefan Keitel

Members

Thomas Ketter
Dr. Ulrich Neugebauer
Michael Schmidt
Thomas Schneider
Steffen Selbach

Landesbank Berlin Investment GmbH

Members of the Supervisory Board
(as of 1 March 2018)

Chairman

Michael Rüdiger
CEO of DekaBank Deutsche Girozentrale, Frankfurt/Main

Deputy Chairwoman

Manuela Better
Member of the Management Board of DekaBank Deutsche Girozentrale, Frankfurt/Main

Members

Serge Demolière
Berlin

Stefan Keitel
Chairman of the Board of Directors Deka Investment GmbH, Frankfurt/Main

Steffen Matthias
Berlin

Victor Moftakhar
Member of the Management Board of the Foundation „Fonds zur Finanzierung der kerntechnischen Entsorgung“, Berlin

Board of Management

Spokesman

Arnd Mühle

Members

Dyrk Vieten
Holger Wern

S Broker AG & Co. KG

Members of the Supervisory Board
(as of 1 March 2018)

Chairman

Dr. Georg Stocker
Deputy Chairman of the Management Board of DekaBank Deutsche Girozentrale, Frankfurt/Main

Deputy Chairman

Manuela Better
Member of the Management Board of DekaBank Deutsche Girozentrale, Frankfurt/Main

Dr. Olaf Heinrich
Head of Digital Multichannel Management of DekaBank Deutsche Girozentrale, Frankfurt/Main

Members

Daniel Kapffer
COO Banking & Custody of DekaBank Deutsche Girozentrale, Frankfurt/Main

Dr. Hans-Jürgen Plewan
Head of IT, DekaBank Deutsche Girozentrale, Frankfurt/Main

Board of Management

Member

S Broker Management AG

S Broker Management AG

Members of the Supervisory Board
(as of 1 March 2018)
Chairman

Dr. Georg Stocker
Deputy Chairman of the Management Board of der DekaBank Deutsche Girozentrale, Frankfurt/Main

Deputy Chairman

Dr. Olaf Heinrich
Head of Digital Multichannel Management of DekaBank Deutsche Girozentrale, Frankfurt/Main

Member

Manuela Better
Member of the Management Board of DekaBank Deutsche Girozentrale, Frankfurt/Main

Board of Management

Chairman

Thomas Pfaff

Member

Jens Wöhler

bevestor GmbH

Members of the Supervisory Board
(as of 1 March 2018)

Chairman

Dr. Olaf Heinrich
Head of Digital Multichannel Management of DekaBank Deutsche Girozentrale, Frankfurt/Main

Steffen Selbach
Head of Asset Management, Multi Asset, Fundamental Investment Strategies of DekaBank Deutsche Girozentrale, Frankfurt/Main

Deputy Chairman

Daniel Kapffer
COO Banking and Custody of DekaBank Deutsche Girozentrale, Frankfurt/Main

Member

Board of Management

Members

Marco Lorenz
Björn Schmuck

DekaBank Deutsche Girozentrale Luxembourg S.A.

Members of the Adminstrative Board
(as of 1 March 2018)

Chairman

Martin K. Müller
Member of the Management Board of DekaBank Deutsche Girozentrale, Frankfurt/Main

Deputy Chairman

Dr. Matthias Danne
Member of the Management Board of DekaBank Deutsche Girozentrale, Frankfurt/Main

Members

Manuela Better
Member of the Management Board of DekaBank Deutsche Girozentrale, Frankfurt/Main

Wolfgang Dürr
Executive Member of the Adminstrative Board DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg

Dr. Stefan Grabowsky
Trier

Hans-Ulrich Hügli
Luxembourg

Board of Management

Members

Wolfgang Dürr
Tobias Gansäuer
Daniel Kapffer

Asset Management Real Estate business division

Advisory Board Real Estate
(as of 1 March 2018)

Chairman

Johannes Hüser
Chairman of the Management Board of Kreissparkasse Wiedenbrück, Rheda-Wiedenbrück

Deputy Chairman

Dirk Köhler
Chairman of the Management Board of Sparkasse Uelzen Lüchow-Dannenberg, Uelzen

Members

Andrea Binkowski
Chairwoman of the Management Board of Sparkasse Mecklenburg-Strelitz, Neustrelitz

Wolfgang Busch
Deputy Chairman of the Management Board of Sparkasse Hilden-Ratingen-Velbert, Velbert

Toni Domani
Member of the Management Board of Sparkasse Regen-Viechtach, Regen

Peter Dudenhöffer
Deputy Chairman of the Management Board of Sparkasse Germersheim-Kandel, Kandel

Heinz Feldmann
(since 1 January 2018)
Chairman of the Management Board of Sparkasse Leer Wittmund, Leer

Norbert Grießhaber
Chairman of the Management Board of Sparkasse Kraichgau, Bruchsal

Udo Klopfer
Chairman of the Management Board of Sparkasse Hegau-Bodensee, Singen

Heinrich-Georg Krumme
Chairman of the Management Board of Sparkasse Westmünsterland, Dülmen

Karl Manfred Lochner
Member of the Management Board of Landesbank Baden-Württemberg, Stuttgart

Dr. Ewald Maier
Chairman of the Management Board of Sparkasse Forchheim, Forchheim

Guido Mönnecke
(to 31 December 2017)
Chairman of the Management Board of Kreis-Sparkasse Northeim, Northeim

Mike Stieler
Chairman of the Management Board of Sparkasse Sonneberg, Sonneberg

Dr. Hariolf Teufel
Chairman of the Management Board of Kreissparkasse Göppingen, Göppingen

Ulrich Voigt
Deputy Member of the Management Board of Sparkasse KölnBonn, Cologne

Jürgen Wagenländer
Member of the Management Board of Sparkasse Mainfranken Würzburg, Würzburg

Hans Ulrich Weiss
Chairman of the Management Board of Sparkasse Mansfeld-Südharz, Lutherstadt Eisleben

Reinhold Wintermeyer
Deputy Chairman of the Management Board of Sparkasse Oberhessen, Friedberg

Corporate Bodies of Subsidiaries – Asset Management Real Estate business division

Deka Immobilien GmbH

Members of the Supervisory Board
(as of 1 March 2018)

Chairman

Dr. Matthias Danne
Member of the Management Board of DekaBank Deutsche Girozentrale, Frankfurt/Main

Deputy Chairwoman

Manuela Better
Member of the Management Board of DekaBank Deutsche Girozentrale, Frankfurt/Main

Member

Michael Rüdiger
CEO of DekaBank Deutsche Girozentrale, Frankfurt/Main

Board of Management

Members

Ulrich Bäcker
Burkhard Dallosch
Torsten Knapmeyer
Thomas Schmengler

Deka Immobilien Investment GmbH

Members of the Supervisory Board
(as of 1 March 2018)

Chairman

Dr. Matthias Danne
Member of the Management Board of DekaBank Deutsche Girozentrale, Frankfurt/Main

Deputy Chairwoman

Manuela Better
Member of the Management Board of DekaBank Deutsche Girozentrale, Frankfurt/Main

Member

Hartmut Wallis
Zornheim

Board of Management

Members

Burkhard Dallosch
Torsten Knapmeyer
Thomas Schmengler

WestInvest Gesellschaft für Investmentfonds mbH

Members of the Supervisory Board
(as of 1 March 2018)

Chairman

Dr. Matthias Danne
Member of the Management Board of DekaBank Deutsche Girozentrale, Frankfurt/Main

Deputy Chairwoman

Manuela Better
Member of the Management Board of DekaBank Deutsche Girozentrale, Frankfurt/Main

Member

Hartmut Wallis
Zornheim

Board of Management

Members

Ulrich Bäcker
Burkhard Dallosch
Torsten Knapmeyer
Mark Wolter

Glossary

Additional Tier 1 bond (AT1 bond)
Non-cumulative, fixed-interest bearer bond issued by DekaBank as Additional Tier 1 capital with subsequent adjustment of its interest rate and an unlimited term. If the Common Equity Tier 1 capital ratio falls below a set minimum, the nominal and redemption values of the bearer bond may be reduced in specific circumstances.

Advisory/management mandate
External funds which are managed by a capital management company (*Kapitalverwaltungsgesellschaft* – KVG) of the Deka Group. For advisory mandates, the KVG acts only as an adviser, i.e. the external management company must verify compliance with investment restrictions in advance. For management mandates, however, investment decisions are made, verified and implemented by the KVG of the Deka Group.

Core business
Deka Group's core business comprises launching and managing securities and property funds and certificates for private and institutional investors as well as transactions that support and complement Asset Management. These include, among other things, services in connection with fund-based asset management, the investment custody business and activities in the Capital Markets and Financing business divisions.

Cost/income ratio (CIR)
In the Deka Group, this indictor is calculated from the ratio of total expenses (excluding restructuring expenses) to total income (before provisions for loan losses) in the financial year.

Economic result
As a key management and performance indicator, together with economic risk, the economic result forms the basis for risk/return management in the Deka Group and is, in principle, determined in accordance with accounting and measurement policies of IFRS. As well as net income before tax, the economic result also includes changes in the revaluation reserve before tax as well as the interest rate and currency related valuation result from original lending and issuance business. The interest expense in respect of AT1 bonds (Additional Tier 1 capital), which is recognised directly in equity, is also included in the economic result. Furthermore, the economic result takes into account potential future charges that are considered possible in the future but that are not yet permitted to be recognised under IFRS due to the fact that accurate details are not yet available. The economic result is therefore a control variable on an accrual basis whose high level of transparency enables recipients of the external financial reporting to consider the company from the management perspective.

Fully loaded
Capital ratio calculated by applying the set of regulations stipulated in the Capital Requirements Regulation (CRR) and Capital Requirements Directive IV (CRD IV) in full, i.e. without taking account of the applicable transitional provisions.

Fund assets (according to BVI)
Fund assets according to BVI comprise the fund assets of the mutual and special funds and asset management funds as well as the master fund. Direct investments in co-operation partner funds, the proportion of products for fund-based asset management attributable to cooperation partners, third party funds and liquidity as well as the advisory/management and asset management mandates are not included.

Net funds inflow (according to BVI)
Difference between the funds inflow from the sale of units and the outflow from the redemption of units. Unlike net sales, this figure does not include the funds of cooperation partners or advisory/management and asset management mandates. However, the net sales from own investments are taken into account in the net funds inflow.

Net sales
Performance indicator of sales success in asset management and certificate sales. This figure essentially consists of total direct sales of mutual and special funds, fund-based asset management, funds of partner organisations, master funds and advisory/management mandates, ETFs and certificates. Sales generated through proprietary investment activities are not taken into account. Redemptions and maturities are not taken into account for certificates, since in the certificates business the impact on earnings primarily occurs at the time of issue.

Non-core business
Non-core business comprises positions from credit and capital market business that are not suitable for Asset Management or realising synergies with Asset Management. At the Deka Group, these positions are reported separately from core business and reduced while at the same time safeguarding assets. The portfolio essentially consists of legacy business with securitised and structured products as well as bonds of foreign public-sector institutions from the former public finance portfolio. The volume is now relatively small.

Payments to the alliance partners
Payments made by the Deka Group to the savings banks and Landesbanken. These include the transfer of the front-end load from the sale of funds as well as the corresponding sales performance compensation, asset management fee and sales commission.

Phase in
Capital ratio calculated by applying the set of regulations stipulated in the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV) and taking account of the applicable transitional provisions.

Primary/institutional customers
The Deka Group's primary customers are the German savings banks and their customers. The products sought by primary customers are also offered to other institutional customers. These include in particular insurance companies, pension funds and foundations but also German public-sector institutions.

Return on equity (RoE)
Return on equity at the Deka Group is calculated as the return on balance sheet equity. It corresponds to the annualised economic result relative to the average balance sheet equity including atypical silent capital contributions, without additional Common Equity Tier 1 capital (AT1) and adjusted for intangible assets. Average balance sheet equity is calculated using the figures for the end of the previous year and the most recent quarterly financial statements (accumulated profit in the course of the year taken into account).

Revaluation reserve
The revaluation reserves is a component of IFRS equity on the balance sheet. They include revaluations of net liabilities arising from defined benefit obligations (actuarial gains and losses), the effects of fair value measurement on financial instruments in the available for sale category – through other comprehensive income – and the effective portion of the change in fair value of hedging instruments arising from cash flow hedges, taking into account deferred taxes associated with these items.

Risk-bearing capacity
As a basic principle, risk-bearing capacity is used to determine the maximum level of risk that can be incurred (impacting the income statement), taking into account risk concentrations. To assess risk-bearing capacity on a differentiated basis, DekaBank distinguishes between the risk capacity, the maximum risk appetite and the risk appetite. In the economic risk-bearing capacity analysis, risk capacity corresponds to the total risk cover potential. As a formal overall risk limit, it serves to guarantee the Bank's risk-bearing capacity. On this basis, a capital buffer is reserved for stress scenarios. The primary control parameter and hence the basis of the risk capital allocated as risk appetite is referred to as the maximum risk appetite, which results from deducting the buffer for stress scenarios from the risk capacity. The corresponding utilisation ratios for risk capacity, the maximum risk appetite and the allocated risk capital (risk appetite) may not exceed 100%.

Risk cover potential
In the economic risk-bearing capacity analysis, risk cover potential essentially consists of equity under IFRS, income components and positions of a hybrid capital nature (subordinated capital), adjusted using amounts to correct for certain capital components such as intangible assets or risks arising from pension obligations. As a formal overall risk limit, it serves to guarantee the Bank's risk-bearing capacity. On this basis, a buffer is reserved for stress scenarios in order to reflect extreme market developments and turbulence in the context of risk-bearing capacity. This corresponds at a minimum to the level of subordinated capital components, including Additional Tier 1 capital.

Scenario analysis
A scenario analysis focuses on the material risks identified during the self-assessment and uses tree diagrams to provide a detailed description and analysis. In particular, risk indicators need to be taken into account, which facilitate the derivation of ideas for the active management of operational risks.

Total customer assets
Total customer assets essentially comprise the income-relevant volume of mutual and special fund products (including ETFs) direct investments in cooperation partner funds, the portion of fund-based asset management attributable to cooperation partners, third party funds and liquidity, advisory/management mandates, certificates and third party managed master funds.

Wertpapierhaus
The Deka Group is the fully-fledged securities service provider for the savings banks. Its services comprise investments, asset management and support for the savings banks throughout the entire investment and advisory process for securities-related business. In addition, the Deka Group offers comprehensive advice and solutions to the savings banks and other institutional customers for their investment, liquidity, funding and risk management requirements.

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Internet website

The Annual Report 2017 can be found on our website, including as an interactive online version under "Investor Relations/ Reports" in German and English. Previous versions of our annual and interim reports are also available for download here.

Our group company in Luxembourg, DekaBank Deutsche Girozentrale Luxembourg S. A. publishes its own annual report.

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Financial calendar

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The publication date is preliminary and subject to change.

Gender clause
In this annual report, words in the masculine include words in the feminine; in parts of the report, the masculine form has solely been used to make the document easier to read.

Disclaimer
The management report as well as the Annual Report in other respects contain forward-looking statements as well as expectations and forecasts. These are based on the information available to us at the time of publication, which we have deemed to be reliable after careful consideration. We do not assume an obligation to update based on new information and future events after the publication of this information. We have derived our estimations and conclusions from these forward-looking statements, expectations and forecasts. We expressly point out that all of our future-oriented statements are associated with known or unknown risks or imponderables and are based on conclusions relating to future events, which depend on risks, uncertainties and other factors that are outside of our area of influence. Such developments can result from, among other things, a change in the general economic situation, the competitive situation, the development of the capital markets, changes in the tax law and legal framework and from other risks. The events actually occurring in the future may thus turn out to be considerably different from our forward-looking statements, expectations, forecasts and conclusions. We can therefore assume no liability for their correctness and completeness or for the actual occurrence of the information provided. The English translation of the Deka Group Annual Report i s provided for convenience only. The German original is definitive.

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Finanzgruppe