Growing hand in hand

Interim Report as at 30 September 2008
DekaBank Group

Finanzgruppe

DekaBank

DekaBank Group at a glance

Business development indicators		30.09.2008	31.12.2007	Change %
Total assets	€m	140,516	106,482	32.0
Assets under management (AMK and AMI)	€m	155,656	165,201	– 5.8
of which: Asset Management Capital Markets (AMK)	€m	136,690	147,476	– 7.3
of which: Asset Management Property (AMI)	€m	18,966	17,725	7.0
Number of securities accounts	thousand	5,141	5,205	– 1.2
		01.01.–30.09.2008	**01.01.–30.09.2007**	
Net sales (AMK and AMI)	€m	9,416	8,243	14.2
of which: Asset Management Capital Markets (AMK)	€m	7,887	8,130	– 3.0
of which: Asset Management Property (AMI)	€m	1,529	113	(> 300)
Performance indicators				
Total income	€m	674.6	1,004.2	– 32.8
of which: Net interest income	€m	241.0	127.2	89.5
of which: Net commission income	€m	720.3	734.8	– 2.0
Total expenses	€m	577.1	483.5	19.4
of which: Administrative expenses (incl. depreciation)	€m	575.6	479.0	20.2
Economic result	€m	97.5	520.7	– 81.3
Net income before tax	€m	66.8	522.3	– 87.2
Key ratios				
Return on equity [1]	%	3.9	23.6	– 19.7%-points
Cost/income ratio [2]	%	72.7	48.9	23.8%-points
Key regulatory figures		**30.09.2008**	**31.12.2007**	
Capital and reserves	€m	3,898	3,733	4.4
Core capital ratio	%	9.5	8.5	1.0%-points
Total capital ratio	%	11.2	12.2	–1.0%-points
Risk ratios				
Total risk-bearing capacity	€m	5,186	5,683	– 8.7
Group risk (value-at-risk) [3]	€m	3,258	2,392	36.2
Utilisation of risk-bearing capacity	%	62.8	42.1	20.7%-points
Non-guaranteed rating (short-term/long-term)				
Moody's		P–1/Aa2	P–1/Aa2	
Standard & Poor's		A–1/A	A–1/A	
Key employee figures				
Number of employees		3,845	3,553	8.2
Average number of positions occupied		3,346	3,089	8.3

1) Return on equity (RoE before tax) corresponds to the economic result divided by equity at the start of the financial year, including atypical silent capital contributions (figure annualised).

2) Cost/income ratio (CIR) corresponds to the ratio resulting from total expenses (excluding restructuring expenses) and total income (before risk provision).

3) Confidence level: 99.9%, holding period: 1 year.

Business development and profit performance in the DekaBank Group

Development in the third quarter of 2008 was dominated by the further worsening of the financial market crisis. Difficult conditions in the capital markets and the associated loss of confidence among market players exacerbated the already tight liquidity situation in the financial system. Following the collapse of a major US investment bank, the already stricken markets came under extraordinary pressure again and spreads widened considerably. These events in the market intensified the global crisis in the banking system and led to dramatic changes in Europe as well. In Germany, one major real estate bank only narrowly avoided bankruptcy thanks to the intervention of the government and a bank consortium. However these measures and the rescue package promised for the American banking system by the US government did little to stabilise the markets.

In the third quarter, these global events also influenced business development and profit performance in the DekaBank Group. Although the economic result fell by around €24m compared to the first half of the year (€121.6m), at €97.5m it remained positive overall (previous year excluding income effect from the sale of the Trianon complex: €375.0m).

The turbulent developments in the financial markets were also reflected in the overall risk position. Group risk (value-at-risk with confidence level of 99.9%, time horizon one year) increased by around 36% to €3,258m (31 December 2007: €2,392m). The rise is due in particular to higher market price risk, largely as a result of greater volatility. The Group risk was countered by sufficient cover potential. The total risk-bearing capacity as at the end of September amounted to €5,186m (31 December 2007: €5,683m). Consequently, the utilisation level of the total risk-bearing capacity stood at 62.8% (31 December 2007: 42.1%).

Despite persistent turmoil in the capital markets and the associated uncertainty among customers, the net sales performance in the Asset Management Capital Markets (AMK) and Asset Management Property (AMI) business divisions of €9.4bn overall exceeded the figure for the previous year (€8.2bn). As at the end of September, assets under management in the two divisions totalled €155.7bn, which corresponds to a slight decline year-on-year of 5.8%. The market-related negative performance of funds in the AMK business division was only partially offset by net inflows.

DekaBank's central role for the *Sparkassen-Finanzgruppe* (Savings Banks Finance Group) is reflected in the development in payments to the alliance partners and the ratio of intra-alliance business. The payments to the alliance partners, which correspond to DekaBank's contribution to added value for the savings banks and *Landesbanken*, increased during the reporting period from €844m in the previous year to €879m. The ratio of intra-alliance business, which equates to the proportion of our products to funds sales achieved by our sales partners, amounted to 88% as at the end of September (end 2007: 87%). Both ratios are a gauge of the high level of acceptance of DekaBank in the *Sparkassen-Finanzgruppe*.

Business development

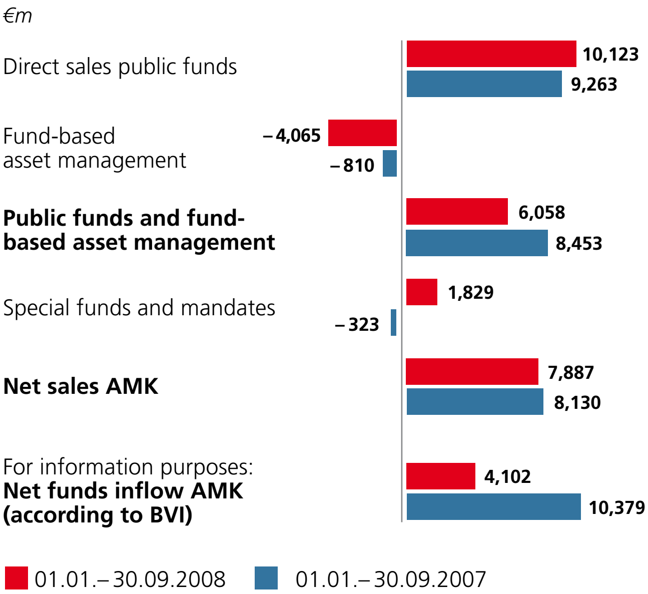
Business development in the AMK business division

Net sales in the AMK business division amounted to €7.9bn (previous year: €8.1bn). Direct sales of public securities funds exceeded the already high figure of the previous year (€9.3bn) by around 9% at €10.1bn. In the current reporting period, bond funds and money market funds achieved the highest inflows with €4.4bn and €4.1bn respectively; capital protected funds and mixed funds recorded inflows of €1.3bn each. In the same period, equity funds saw outflows of €1.1bn.

With regard to fund-based asset management, there were significant outflows during the period under review. Overall, the sales performance of fund-based asset management stood at €–4.1bn (previous year: €–0.8bn).

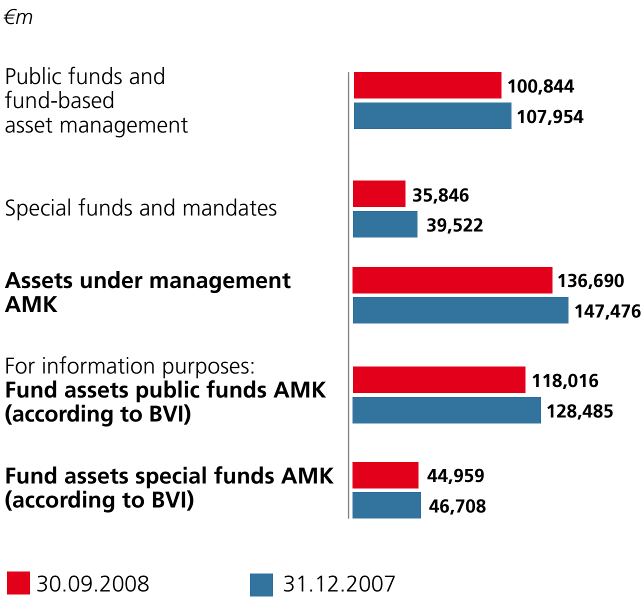
Sales of special funds and mandates were positive overall during the reporting period and at €1.8bn, were considerably up on the previous year's figure (€–0.3bn). Here the development of business activities in Master-KAG mandates was pleasing (Fig. 1).

Net sales AMK *(Fig. 1)*



As at 30 September 2008, assets under management totalled €136.7bn (31 December 2007: €147.5bn). The decline resulted from the market-related negative performance, which was only partially offset by net inflows in some fund categories. According to BVI statistics, in terms of fund assets, our public securities funds achieved a market share of 20.4% as at 30 September 2008. With assets under management of €32.7bn, fund-based asset management remains a central component of DekaBank's service spectrum (Fig. 2).

Assets under management AMK *(Fig. 2)*

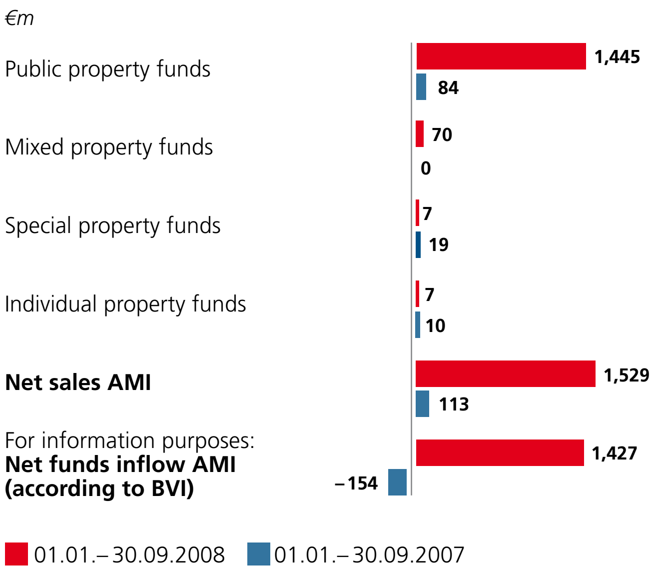


Business development in the AMI business division

The AMI business division continued its sustained growth course despite the difficult market conditions. The conscious restraint on the selling side on the part of the property funds in the previous year and the purchase of high yield property created the preconditions for this. At the start of the current year, five open-ended public property funds for private customers were again offered for sale via fixed quotas. The quotas for the international open-ended property funds were already placed in full by the end of June, and as of July only the quotas for more heavily Germany-oriented funds were available. During the reporting period, our open-ended public property funds had comfortable liquidity ratios. Around 90% of investors in our funds are private customers of the savings banks.

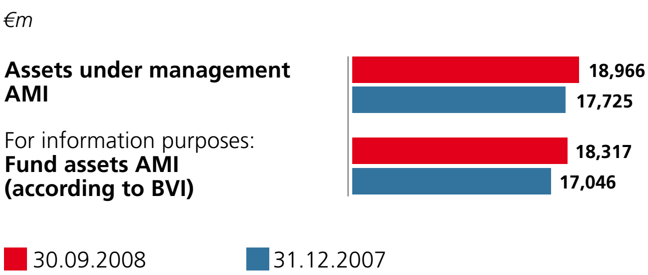
Net sales of public property funds during the period under review amounted to €1.4bn (previous year: €0.1bn). With regard to special property funds and individual property funds, the net sales performance was almost unchanged on the previous year. In contrast, the sales performance recorded by the real estate private equity fund of funds launched at the end of April 2008 stood at €70m (Fig. 3).

Net sales AMI *(Fig. 3)*



Assets under management reached around €19bn as at the end of September. According to BVI statistics, in terms of fund assets AMI is still the clear number one in open-ended public property funds in the German market. The 7.0% rise in assets under management relative to the 2007 year-end (€17.7bn) is due to improved sales during the period under review as well as the pleasing performance of the funds. (Fig. 4).

Assets under management AMI *(Fig. 4)*



Real Estate Lending

In the Real Estate Lending sub-division, AMI continued its international expansion. The new loans granted by the end of September totalled €2.9bn (31 December 2007: €2.3bn). Despite the difficult market environment, at €0.6bn, the volume syndicated was on a par with the comparable figure for the previous year.

The gross loan volume in the AMI business division amounted to €7.9bn as at 30 September 2008 (31 December 2007: €5.7bn).

Business development in the C&M business division

Development in the third quarter of 2008 was dominated by the further worsening of the financial market crisis. Difficult conditions in the capital markets and associated loss of confidence among market players exacerbated the already tight liquidity situation in the entire financial system.

In the Liquid Credits sub-division, the Bank continued to proceed with the necessary prudence. Selected market opportunities were cautiously used to slightly extend the portfolio of structured credit capital market products (ABS, CLO and Structured Finance CDO). As a result of high spreads, investment activities in 2008 shifted considerably from structured products into standard products such as bonds, CDS and index transactions. Consequently, this traditional product segment accounts for around two thirds of the Liquid Credits portfolio. As a result of sharp and sometimes irrational spread widening in the current year, which arose in connection with significantly increased volatility, the portfolio in the Liquid Credits sub-division was also exposed to greater valuation fluctuations.

In traditional lending business, which is carried out through the Credits sub-division, we continued to successfully expand our international special finance activities, especially in project finance, transport finance and infrastructure finance. We maintained our focus on counterparties and projects with a first class credit rating, mainly in Europe and North America. We exploited buoyant new business levels here to further optimise the credit portfolio, including through the targeted selection of transactions.

Development in the Markets sub-division was driven by derivatives business and repos/lending business. Assets under management for the index funds of the ETFlab established at the end of March amounted to €2.2bn as at the end of September. In addition to ETF market making, securities finance and market-making positions in equity derivatives were also expanded.

Overall, the gross loan volume managed by the C&M business division increased by around 21% as at the end of September to €141.8bn (end 2007: €117.3bn).

Profit performance

At €97.5m, the economic result of the DekaBank Group in the reporting period was lower than the previous year's figure (excluding the non-recurring positive income effect from the Trianon disposal) of €375.0m. Profit performance was especially dominated by the further worsening of the financial market crisis and widening of spreads in the third quarter. The negative valuation result for credit capital market products in Liquid Credits positions reported in net financial income amounted to around €–275m in the reporting period.

Around €203m (previous year: €249m) of the economic result of the DekaBank Group was attributable to the AMK business division. The AMI business division contributed around €55m (previous year excluding income effect from the Trianon disposal: €54m). The remaining income contributions stemmed from the C&M business division as well as Corporate Centres/Other.

Income – including the negative valuation result from the credit capital market products – totalled €674.6m (previous year excluding income effect from the sale of the Trianon complex: €858.5m). Expenses on the other hand amounted to €577.1m (previous year: €483.5m).

At €241.0m, net interest income exceeded the comparable figure for the previous year (€127.2m). Around two thirds of net interest income stems from the net margin income generated by customer business in the C&M business division and Real Estate Lending (AMI), where considerably higher earnings were achieved in both cases.

The risk provision amounted to €–116.8m (previous year: €25.6m). The transfer to risk provisions during the reporting period is essentially due to the recognition of a provision in the third quarter in light of the financial market crisis.

Net commission income was down 2.0% on the previous year (€734.8m) at €720.3m. As in the previous year, the largest share of net commission income was attributable to the portfolio-related commission in the AMK business division. As a result of difficult conditions in the capital markets, during the reporting period there was a fall in the average volume of assets under management relevant for commission income in the AMK business division. This was reflected accordingly in lower portfolio-related commission. The shift in the structure of the portfolio towards products with lower margin quality already evident in the first half of the year also continued. In contrast, commission from banking transactions increased, with growth recorded in the lending business and securities management in particular.

Net financial income, which comprises trading and non-trading positions, was clearly negative at €–155.1m (previous year: €–27.7m). The main reason for this was the negative valuation result in credit capital market products in the Liquid Credits portfolio (non-trading) of around €–275m. In contrast, the income from trading positions of €131.7m was considerably up on the previous year (€58.8m). As a result of successful customer trading activities, securities finance business performed particularly well as did trading in securities and equity derivatives.

In October 2008, in response to the financial market crisis the International Accounting Standards Board (IASB) published amendments to IAS 39 "Recognition and Measurement" entitled "Reclassification of financial assets". The amendments were adopted by the European Union in October and apply with retrospective effect from 1 July 2008. Under IAS 39, the previously prohibited transfer of financial assets from the trading portfolio (sub-category: held-for-trading) and the available-for-sale category to the loans and receivables category is now permitted under certain circumstances. In this context, DekaBank reclassified non-derivative trading assets in the held-for-trading category as loans and receivables, as there is no longer an active market for the transactions concerned and the intention to sell consequently no longer applies. As at 30 September 2008, the reclassification produced a positive income effect of around €9m. No assets in the available-for-sale category were reclassified.

Other income, which was dominated in the previous year by the positive effect from the disposal of the Trianon complex, stood at €–14.8m at the end of September.

Administrative expenses amounted to €575.6m, a rise of around 20% year-on-year. This was due in part to the increase in personnel expenses from €239.1m to €275.3m resulting from the Bank's expansion. The growth course pursued by the Bank also led to a rise in operating expenses to €284.6m (previous year: €224.8m). The reasons for this included the targeted investment in IT infrastructure and transaction management as well as expenses relating to the further expansion of the product range. In addition, higher rental payments for the Trianon complex sold in the previous year led to an increase in operating expenses. At €15.7m, depreciation was around the same level as in the previous year (€15.1m); (Fig. 5).

Outlook to the end of the year

October was the worst month for the sector as a whole for a long time. In our opinion, there will be no fundamental stabilisation in the market in the last two months of the year either. Overall, the repercussions of the financial market crisis are having an adverse effect on DekaBank, but the impact is manageable because of the Bank's good position in terms of capital and liquidity. To date, our business model as the central asset manager for the *Sparkassen-Finanzgruppe* has proven to be robust and resilient even in turbulent times.

Change in regulatory capital and funding matrix

Change in regulatory capitals

Capital adequacy is determined in accordance with the Solvency Regulation (SolvV). The regulatory requirements governing capital and reserves were complied with at all times up until 30 September 2008 at both Bank and Group level. DekaBank's liquidity ratio was between 1.7 and 1.3 in the first nine months of 2008 and remained above the minimum requirement of 1.0 at all times. As at 30 September 2008, the core capital ratio was at a good level at 9.5%. The lower total capital ratio compared to 31 December 2007 is attributable in particular to the rise in default risks, which occurred mainly as a result of increased business activities with Deka's own investment funds.

Profit performance in the DekaBank Group *(Fig. 5)*

€m	01.01.–30.09. 2008	01.01.–30.09. 2007	Change	
Net interest income	241.0	127.2	113.8	89.5%
Risk provision	– 116.8	25.6	– 142.4	(< – 300)%
Net commission income	720.3	734.8	– 14.5	– 2.0%
Net financial income	– 155.1	– 27.7	– 127.4	(< – 300)%
Other income	– 14.8	144.3	– 159.1	– 110.3%
Total income	**674.6**	**1,004.2**	**– 329.6**	**– 32.8%**
Administrative expenses (incl. depreciation)	575.6	479.0	96.6	20.2%
Restructuring expenses	1.5	4.5	– 3.0	– 66.7%
Total expenses	**577.1**	**483.5**	**93.6**	**19.4%**
Economic result	**97.5**	**520.7**	**– 423.2**	**– 81.3%**

Breakdown of equity *(Fig. 6)*

€m	30.09.2008	31.12.2007	Change
Core capital	2,629	2,116	24.2%
Supplementary capital	1,302	1,653	– 21.2%
Tier III capital	–	–	–
Capital and reserves	**3,898**	**3,733**	**4.4%**
Default risks[1]	26,138	22,613	15.6%
Market risk positions	6,975	5,738	21.6%
Operational risks	1,613	2,250	– 28.3%
			Change
%			**%-points**
Core capital ratio	**9.5**	**8.5**	**1.0**
Total capital ratio	**11.2**	**12.2**	**– 1.0**

[1] Risk-weighted assets

The AMA approach with its lower capital adequacy requirements compared to the basic indicator approach was applied to operational risks for the first time in 2008 (Fig. 6).

Normal business operations funding matrix

Despite the tight situation in the international money and capital markets during the reporting period, DekaBank continues to have a very comfortable level of liquidity. We have a large volume of highly liquid securities among others (often eligible as collateral for central bank borrowings) which can be utilised to obtain liquidity at short notice through central bank transactions and repurchase agreement transactions. A comfortable level of surplus cover is also available for the issue of *Pfandbriefe*.

The above liquidity reserves offer a high level of cumulative potential liquidity, which is reflected in our funding matrix in the up to one year maturity segment in particular (Fig. 7).

Normal business operations funding matrix of DekaBank as at 30 September 2008 *(Fig. 7)*

€m	<=1M	>1M-12M	>12M-7Y	>7Y	Total
Securities, loans and promissory note loans[1]	14,365	18,459	37,391	9,790	80,004
Other money market transactions (lending)[2]	26,271	11,218	0	28	37,517
Derivatives	– 731	– 2,797	– 3,231	– 115	– 6,873
Refinancing funds[3]	– 27,365	– 19,216	– 33,545	– 24,842	– 104,967
Other balance sheet items[4]	– 35	– 74	– 144	– 2,518	– 2,771
Liquidity balance (acc. gap + acc. liquidity potential)					
DekaBank	26,254	19,943	16,504	1,775	
DekaBank Luxembourg	1,436	3,764	5,079	– 146	

[1] Including irrevocable credit commitments and guarantees.

[2] Of which approx. €20bn collateralised.

[3] Including in particular short term products, own certificates and funding.

[4] Including silent capital contributions and equity.

Financial calendar

Financial year 2009	**March 2009**	Annual press conference 2008 Annual Report 2008
	August 2009	Interim Report as at 30 June 2009

Publication dates are preliminary and subject to change.

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