

# Taking responsibility

Annual financial statements 2009

DekaBank  
Deutsche Girozentrale

*Olympia Partner Deutschland*



 Finanzgruppe

**„DekaBank**

**Annual financial statements 2009**  
**DekaBank Deutsche Girozentrale**

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# Management report 2009 of DekaBank Deutsche Girozentrale

## At a glance

In 2009, the political arena, financial sector and real economy overcame major challenges. The serious financial market crisis now seems to be over. Following further turmoil in the first quarter of this year, the financial markets have noticeably eased again, thanks in part to the committed intervention of central banks. Private and institutional investors have returned, injecting liquidity back into some previously dried up market segments. In this context, risk and liquidity premiums, which had increased once again in spring 2009, dropped significantly over the course of the year. After going into free fall at the end of 2008/ beginning of 2009, the real economy reached a stable base surprisingly quickly. By autumn 2009, the worst recession since the global economic crisis of 1929 was overcome. Nevertheless, the overall situation remains fragile. Imminent loan losses, rising unemployment figures in the long term and the negative impact of growing national debt will require that all market players remain alert in the future. It cannot be ruled out that the liquidity markets may dry up again in 2010, which in turn may result in a significant widening of risk premiums.

DekaBank was able to prove the particular strengths of its business model in 2009, which result from a strategic combination of asset management and capital market business. At €661.8m, we achieved the highest economic result in the company's history for our shareholders, the savings banks and Landesbanken. The clear increase on the previous year (€71.5m) was attributable firstly to DekaBank's forward-looking balance sheet management and the resultant comfortable liquidity position. We have used this liquidity comprehensively for low-risk investments at attractive terms. Secondly, the expansion of customer business and resultant net financial income contributed to the higher result, as did positive market developments and the lower risk premiums on capital market credit products. Supported by the recovery of the markets, the negative valuation results still evident in the first quarter of 2009 were subsequently compensated. Another contributing factor was the slight decrease in administrative expenses as part of the quality and process campaign (QPO) launched in the year under review.

Although income from asset management continued to be very limited as a result of the financial market crisis, we achieved an increase in net commission income on the previ-

ous year. Overall, sales and assets under management stabilised in the year under review following the market disruption in the fourth quarter of 2008. DekaBank strengthened its market position and created a strong starting position for 2010. The decisive factors in achieving this included the further development of DekaBank's product offering in terms of mutual funds, exchange traded index funds (ETFs) and derivatives, coupled with markedly improved fund performance and increases in efficiency as well as infrastructure investments.

DekaBank responded promptly to the changed market and customer requirements in the wake of the financial market crisis and sharpened its business model in 2009 (see page 2). As the central asset manager for the *Sparkassen-Finanzgruppe*, the Bank has geared its product offering even more precisely to customer requirements and ensured that its capital market expertise serves Asset Management even more consistently. Lending business and credit substitute transactions that are not suited to Asset Management no longer represent a strategic focus and have been separated from core business. This is accompanied by strictly limited risk positions.

DekaBank has started 2010 with a focused strategy, leaner cost basis and justified optimism. The popularity of our funds and services with savings bank customers creates new growth opportunities in an environment in which other market players are facing greater difficulties following the financial market crisis and subsequent crisis in the real economy. The same applies to savings banks as institutional customers, as we have further fine-tuned the set of instruments we make available to them for liquidity and risk management. We have continued the quality and process campaign to focus existing processes on key services. At the same time, this creates scope for targeted investments in a direction which will secure the future of DekaBank. Alongside risks, non-core business also offers opportunities for write-ups. These are continually monitored and managed on the basis of a strategy that reduces relevant business while safeguarding assets.

## Business model and structure of the DekaBank Group

### Business model sharpened

DekaBank is the central asset manager for the *Sparkassen-Finanzgruppe*. DekaBank develops integrated asset management solutions for the savings banks, Landesbanken and their customers, and provides its partners in the *Sparkassen-Finanzgruppe* with liquidity on a flexible basis at all times.

Based on the interaction of the Asset Management Capital Markets (AMK), Asset Management Property (AMI) and Corporates & Markets (C&M) business divisions, DekaBank develops its product offering closely aligned with key capital market trends while broadening access to asset classes and responding to different risk profiles and investment strategies with tailored products. In this respect, the business divisions are supported by Savings Banks Sales, Institutional Sales, which is part of AMK, and eight Corporate Centres that provide cross-divisional services.

### Clear customer and product focus

DekaBank has consistently pursued the previously commenced strategic development and sharpened its business model in 2009, in order to focus even more on its role as the central asset manager for the *Sparkassen-Finanzgruppe*.

The Bank's core business has since comprised products and services that fulfil the following three conditions:

- They meet direct demand from the *Sparkassen-Finanzgruppe* and its customers or are linked to it as downstream activities.
- They are suitable for Asset Management, whether for use in product solutions or to release synergies along the value-creation chain.
- Risk positions are only entered into in relation to customer transactions and if they can be hedged in the market, or if they are accepted in order to release synergies in Asset Management and are clearly limited by the amount of equity by which they are backed.

With this strategic direction, DekaBank realigns its business model to match the requirements of savings banks and their customers as well as institutional customers in selected markets even more closely and perceives its role as that of a service provider for these target groups.

### Capital market business geared to Asset Management

Capital market business in the Corporates & Markets business division was reviewed on the basis of what constitutes core business and now focuses on the asset classes and core functions that support Asset Management. DekaBank's capital market activities service customer-based demand for the Bank's own funds, that of the savings banks and other institutional investors.

In line with this aim, lending business has focused on credit assets, which generate fixed cash flow that can be planned in the long term. This makes them attractive for Asset Management. Alternatively, they are used to cover institutional demand, for example via syndication. The suitability of the core credit segments identified for Asset Management is continuously reassessed on the basis of changing market conditions.

### Separation of non-core business

The allocation of loan portfolios and structured capital market credit products to the new non-core business segment was primarily driven by strategic considerations rather than their value. The positions pooled in non-core business are not so suitable for product solutions in Asset Management. In some cases, we expect significant write-up potential in the sub-segments of non-core business. The segment includes trade and export finance, which is not covered by state export credit insurance (ECA), and leveraged finance from the former Credits portfolio. Structured capital market credit products, such as asset and mortgage-backed securities, collateralised loan obligations and synthetic products from the former securitisation portfolio have been allocated to the non-core business portfolio.

The volume of this portfolio will gradually diminish over the coming years. This is partly due to selected disposals, which will be carried out taking into consideration current market prices and the risks and opportunities associated with future developments, and partly to the scheduled maturity of contracts. In the event of an accelerated reduction of the portfolio, DekaBank would realise unnecessary valuation losses. Moreover, the DekaBank Group's comfortable liquidity situation also ensures that this will not be necessary. Instead, the Bank pursues portfolio management that safeguards assets in the interests of shareholders and which is in line with DekaBank's value-oriented long-term strategy.

## Legal structure and corporate governance

DekaBank is a German institution incorporated under public law with registered offices in Frankfurt/Main and Berlin. The Deutscher Sparkassen- und Giroverband (DSGV ö.K.), (German Savings Banks and Giro Association) and six Landesbanken are guarantors of DekaBank. DSGV and the Landesbanken both hold 50% equity stakes in DekaBank; the shares of the Landesbanken are held indirectly by GLB GmbH & Co. OHG (49.17%) and NIEBA GmbH (0.83%), a subsidiary of NORD/LB.

The DekaBank Group strictly adheres to the principles of responsible company management. The corporate governance principles for Group management and supervision define clear and distinct responsibilities for boards and committees and promote rapid decision-making. The Board of Management, which comprises six members, has overall responsibility for managing DekaBank. The members of the Board of Management are supported by management committees at business division level and in Sales. The objective is to ensure that all activities are closely integrated, which is facilitated by efficient investment management. DekaBank also integrates the expertise of the *Sparkassen-Finanzgruppe* into its decision-making via several advisory boards and sales committees which advise the Board of Management. In accordance with the provisions of the Investment Act, the supervisory boards of the German capital investment companies include external supervisory board members with extensive experience of the markets.

The close cooperation of the Board of Management and Administrative Board is based on trust. The Administrative Board of DekaBank has 30 members in accordance with the Bank's statutes. These include representatives from the *Sparkassen-Finanzgruppe*, employee representatives and representatives from the Bundesvereinigung der kommunalen Spitzenverbände (German Federal Organisation of Central Municipal Organisations), the latter in an advisory capacity. The work of the Administrative Board is processed in part by the full Board and in part by various expert committees. To this end, the Administrative Board has formed the General Committee and the Audit Committee from its members. The German Federal Minister of Finance has overall government responsibility.

## Organisational structure and locations

The business of DekaBank is managed from its head office in Frankfurt/Main. Most of the Group's capital investment and associate companies in Germany are also based here. In addition, WestInvest Gesellschaft für Investmentfonds mbH is based in Düsseldorf. Based in Munich, the subsidiary ETFlab Investment GmbH is responsible for the development, issue, marketing and management of ETFs for institutional investors. Important banks in international financial centres include DekaBank Deutsche Girozentrale Luxembourg S.A. in Luxem-

bourg and Deka(Swiss) Privatbank AG in Zurich. The DekaBank Group also maintains companies and representative offices in Amsterdam, Brussels, London, Madrid, Milan, New York, Paris, Tokyo and Vienna.

Together with the public sector insurance companies, DekaBank offers products and consultancy services relating to company pension schemes via its associated company, S PensionsManagement GmbH in Cologne (DekaBank shareholding: 50%). At the beginning of 2009, fund accounting in Germany and some areas of fund administration were pooled at Dealis Fund Operations GmbH, a joint venture with Allianz Global Investors (DekaBank shareholding: 49.9%). S Broker AG & Co. KG in Wiesbaden (DekaBank shareholding: 30.6%) is an online broker. DKC Deka Kommunal Consult GmbH (shareholding: 100%) in Düsseldorf provides advice to local authorities and public sector companies in Germany.

## Business divisions and product and service range

### Asset Management Capital Markets business division (AMK)

Asset Management Capital Markets (AMK) provides allround solutions for private and institutional customers in capital market-based asset management. This facilitates the implementation of precisely-tailored investment strategies that meet all market expectations and encompass the major asset classes. In total, 4.8 million custody clients in Germany, Luxembourg and Switzerland use the fund-based products and services. Alongside the funds and structured investment products of the DekaBank Group, the range of products offered also comprises products from selected international cooperation partners.

For private investors, AMK offers a wide range of investment funds. Currently, 637 mutual funds facilitate investment in the major asset classes, including equity, bond, money market and mixed funds as well as capital protected funds and any combination of these, sometimes in conjunction with guaranteed, discount and bonus structures. The spectrum covers basic products as well as products that meet specific requirements. As at year-end 2009, the DekaBank Group's mutual securities funds ranked in second place in the German market in terms of fund assets according to BVI.

With our fund-based asset management products, we offer continuous market analysis and consultancy for private investors. Comprehensive asset allocation across all asset classes means that investors can implement their own strategies, depending on their individual risk/reward profile. Alongside

funds of funds, structured investment concepts encompass fund-linked asset management with the Sparkassen-Dynamik-Depot, Schweiz PrivatPortfolio, Swiss Vermögensmanagement and Swiss Fund Selection products.

While retail sales of mutual funds are processed by the savings banks, DekaBank additionally maintains direct sales activities in Institutional Sales. AMK manages 357 special funds as well as 123 advisory and management mandates on behalf of institutional investors. The range of services also includes the Master KAG activities (135 mandates), which institutional customers use to pool their assets under management with one investment company.

In the segment of private retirement pensions, the range of products and services comprises the fund-based Riester products, Deka-BonusRente and Deka-ZukunftsPlan, and the Deka-BasisRente product (*Rürup*).

Services encompass all aspects of investment custody business, including portfolio management, fund controlling and fund reporting. At the beginning of 2009, fund accounting and some areas of fund administration in Germany were combined in Dealis Fund Operations GmbH, a joint venture with Allianz Global Investors. Dealis is the largest provider of administration services in the German market. In addition to synergies and cost advantages, the joint venture offers DekaBank accelerated migration of functions to a new fund administration platform.

Furthermore, in the financial year ended, the process to merge Deka Investment GmbH and Master KAG Deka FundMaster Investmentgesellschaft mbH was also launched. It is scheduled to be completed by mid-2010. The original structure met the previous requirements of institutional investors for separate fund management and administration. This aspect has lost importance in recent years. The merged company will operate under the name of Deka Investment GmbH.

### Asset Management Property business division (AMI)

The DekaBank Group's property expertise is pooled in the Asset Management Property (AMI) business division. It offers property investment products with different risk/ reward profiles for private and institutional investors. In addition, customised property finance is offered to professional property investors, which is often passed on to institutional investors as an investment. Product quality is decisively promoted by direct access to the different property assets and investors, currently ensured in 24 countries and at the same time being expanded with high synergetic effects across both sub-divisions.

In investment fund business, the focus is on the purchase, value-oriented development and sale of commercial property suitable for third party use in liquid markets. Within the business division, the subsidiary Deka Immobilien GmbH is responsible for the acquisition, sale and management of property as well as rental management, and product development. The two capital investment companies within AMI, WestInvest Gesellschaft für Investmentfonds mbH and Deka Immobilien Investment GmbH, focus on active fund management.

The product range in investment fund business includes open-ended mutual property funds, special funds, individual property funds, property funds of funds as well as property and infrastructure loan funds. As at 1 October 2009, we streamlined the product range of mutual funds. Deka-Immobilien-Fonds was combined with Deka-ImmobilienEuropa and WestInvest 1 with WestInvest InterSelect. By pooling these funds, DekaBank created two high-volume European property funds with a temporarily higher proportion in Germany. These funds now feature an even more robust structure, enhanced risk diversification and greater stability. The globally invested Deka-ImmobilienGlobal fund rounds off the investment range of open-ended mutual property funds for private investors. In addition, the portfolio comprises twelve special funds, two individual property funds and two real estate equity funds of funds. The individual property funds are not subject to the German Investment Act. They are managed in the legal form of a German joint stock company and are therefore very flexible in terms of their investment policy and investment format. Another open-ended mutual property fund, WestInvest ImmoValue, is available for the proprietary investment of the savings banks.

With AMI fund assets (according to BVI) of €20.3bn as at the 2009 year-end, distributed across 430 properties in Germany and abroad, DekaBank is the market leader in Germany for mutual property funds and one of the leading property asset managers in Europe.

Real Estate Lending puts to use and complements the existing Asset Management expertise on commercial property, broadening direct access for the whole business division to major international property investors. Lending is restricted to loans that are suitable for the capital markets and a major proportion of which can be passed on to institutional investors in the form of syndication or fund assets. This combined business approach stabilises and increases the division's earnings power. In addition, the resources required in fund business are utilised more efficiently, and optimum integration with the relevant business partners is achieved in property business. In principle, financing activities are limited to the same types of use and regions as in Asset Management.

## Corporates & Markets business division (C&M)

The lending business that is compatible with Asset Management (excluding property finance), trading and sales activities of Capital Markets and Treasury activities are grouped together in the Corporates & Markets (C&M) business division. C&M acts as an investor, structurer and manager of risk products and provides access to primary and secondary markets. Furthermore, the business division offers innovative capital market and derivatives solutions, creating the basis for targeted expansion of DekaBank's Asset Management offering. C&M supplies the Sparkassen- Finanzgruppe with liquidity and funds lending via the money and capital markets.

The Markets sub-division is the central service provider for DekaBank's Group and non-Group Asset Management customers. In strategic terms, trading and sales activities focus on short-term products (money market and repo/lending) as well as structuring equity and interest rate derivatives for funds and the savings banks in the Debt Trading and Share Trading units. The trading unit is rounded off by commission business relating to shares, bonds and exchange traded derivatives on behalf and account of internal and external customers.

In addition, we are expanding business with exchange traded index funds (ETFs) for institutional customers, broadening the product spectrum and maximising product benefits through active market making. While the ETFlab subsidiary is responsible for developing, setting up, marketing and managing the products, market making and sales are pooled in the Linear Equity Risks and ETF Sales units at DekaBank in Frankfurt. The units work closely with Institutional Sales.

The management of securities in the investment funds continues to represent core capital market business. Repo/ lending transactions are particularly important in this respect, as they are used to supply the savings bank sector with short-term liquidity. They also support the funds as part of the relevant investment strategy with the aim of enhancing fund performance.

Lending business (Credits sub-division) focuses on origination, management and product launch of credit assets in Germany and abroad. These generate reliable cash flows, facilitating long-term planning. This feature makes them attractive for Asset Management and suitable to cover institutional requirements, for example via syndication. They include finance

- as part of syndicates in the field of energy, grid and supply infrastructure (utility & project finance),
- of aircraft and ships as well as export finance, where this is covered by state export credit insurance (export credit agency, ECA),
- of infrastructure measures (public infrastructure) – supported by infrastructure consultancy by DKC DekaKommunal Consult, and
- for savings banks and the public sector in Germany (public sector finance), which essentially meet the requirements of cover pool eligibility for public sector Pfandbriefe and covered bonds.

Treasury is now maintained as a separate sub-division. It is responsible for DekaBank's liquidity positioning and liquidity risk management (funding & liquidity) and for setting up and managing market risk positions in the investment book (asset liability management).

The activities of the Public Finance sub-division, which had been set up in the previous year, were discontinued in financial year 2009.

## Savings Banks Sales and Corporate Centres

All business divisions work closely with Savings Banks Sales, for which a particular Management Board member is responsible within DekaBank. In addition to the centralised marketing and sales management, sales are divided into three main regions of Germany (North/East, Mid and South). The Sales unit forms an important interface between DekaBank and its alliance partners and also between production and marketing with a focus on retail customers. Moreover, the unit is responsible for various central duties, such as product and brand management and sales control. The business divisions and Sales unit are supported by a total of eight Corporate Centres with clearly defined core competences, business objectives and management targets and indicators (Fig. 1). They function at cross-divisional level and ensure smooth business operations.

In organisational terms, Institutional Sales is allocated to the AMK business division. However, it carries out tasks for all of the business divisions.



## Value-oriented strategy and management

The structure and content of this section describing the value-oriented strategy and management correspond to the relevant section published in the Group management report. The value-oriented strategy and management are geared to the Group and the Group management according to business divisions and encompass all business divisions and legal entities. We have therefore dispensed with preparing a separate corresponding section at Bank level.

### Integrated value creation in the DekaBank Group

After realigning the business model, including identifying and separating non-core business activities (see page 2), the DekaBank Group is focusing on its role as the central asset manager for the *Sparkassen-Finanzgruppe*. The Group offers an extensive portfolio of solutions comprising Asset Management products and services for the savings banks and their customers via stable technological platforms, while making liquidity and cross-divisional advisory services available to the *Sparkassen-Finanzgruppe* and supporting investment funds in enhancing their performance by generating additional income. To this end, the DekaBank Group uses its lending and capital market business expertise as well as comprehensive access to the capital and property markets.

Value creation ranges from acquiring attractive assets and investment opportunities to structuring and enhancing these and jointly launching product solutions, which take into account market trends and investor requirements at an early stage. This enables private and institutional investors to implement individual investment strategies in all market scenarios and gear their portfolio to their own return expectations and risk affinity. With our mission 2012, we are anchoring our claim to be the integrated bank of choice in all units of the company. The mission sets the standard for employees in all Group units to continually improve their performance while

ensuring customer focus and an all-round approach.

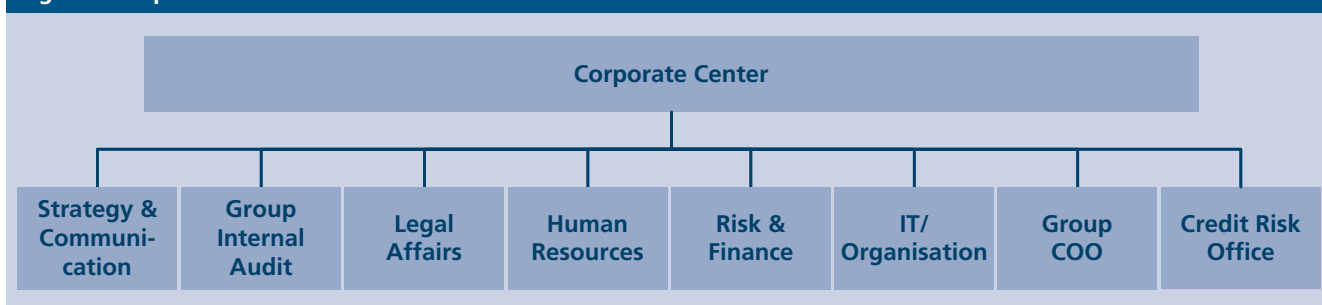
The DekaBank Group's integrated business model, which is based on the division of labour and was realigned in 2009, creates added value for its alliance partners and end customers. On this basis, the economic result of the business divisions can be increased and therefore also DekaBank's enterprise value.

### Quality and process campaign

With the quality and process campaign launched in the year under review, DekaBank secures its long-term competitiveness in a fundamentally changed market environment. More than 400 individual measures are aimed at improving process quality and reducing administrative expenses throughout the Group by 2011. In addition to cost savings, the aim is to increase the customer focus and efficiency of processes. Furthermore, the lower cost basis will provide greater scope for growth-driven investment in core business.

The measures are essentially aimed at reducing personnel and operating expenses. Personnel expenses will be reduced by cutting staff capacity by 350 jobs. Where possible, this reduction in staff is initially to be achieved without layoffs for operating reasons, and instead by offering options such as voluntary redundancy, early retirement solutions and the increased use of part-time employment (see page 26). Further key savings effects will be achieved through restraint in marketing and sales, lower take-up of external consultancy services, improved purchasing conditions and consistent process optimisation in accordance with the principle of lean management. The measures are backed by close project control. In 2009, we implemented our ambitious targets throughout the Group and already achieved savings amounting to more than €100m compared with the original planning.

Fig. 1 Corporate Center





## Investment in a high-performance IT platform

In order to boost the competitiveness of its business divisions, DekaBank will continue to invest in its IT platform. As a basis for this, we conducted an IT audit in the third and fourth quarters of the year. This focused on taking stock of the existing IT architecture and IT management, developing a new direction for IT governance and a structure for a strategic IT programme. The IT programme launched at the end of 2009 will establish an integrated forward-looking overall IT architecture. The programme entails consolidating the application environment, replacing old applications and introducing a new integration platform to reduce the number of interfaces. At the end of this process, which will take several years, the Bank will have a flexible application environment that guarantees high system stability at reasonable operating costs. Thanks to the technology used, consolidated interfaces and a lower level of complexity, the modernised application environment facilitates rapid adjustments to new market developments. With the planned measures, DekaBank will further reduce IT costs and minimise any IT-related risks arising from the complexity of a continually evolving IT architecture. The sustainability of the programme is backed up by a realignment of IT governance.

## Strategy in the business divisions

### Strategy in the AMK business division

The AMK business division has further sharpened its profile, with a focus on streamlining the product range and further developing specific products in line with the differentiated requirements of various end customer groups and also reworking the sales concept. The Bank's positioning as central asset manager for the *Sparkassen-Finanzgruppe* remains the overriding aim, driven by a stringent focus on the requirements of its target groups.

### Mutual securities funds

AMK offers mutual securities funds for the retail customers of the savings banks. In line with the relevant customer demand, the product range has been split into the categories of actively promoted products (with active sales support) and passively marketed products. This was associated with streamlining the product range on the basis of closures and the combination of funds and unit classes, whether already implemented or planned. All new products must meet stringent criteria. In 2009, product development focused on bond and guaranteed funds, some of which use a total return approach that responds to the continuing marked requirement for security from many investors.

### Fund-linked asset management

Fund-linked asset management is positioned as a basic product for high-potential retail customers as part of the savings banks financing concept. In response to the financial market crisis, AMK already implemented comprehensive changes to its management approach at the beginning of 2009. The portfolio is aligned even more closely with the risk profile of customers and managed more flexibly, including the total exclusion of equity funds from the mix for certain specific variants of the Sparkassen-DynamikDepots. Following the introduction of actual maximum loss limits, customers are also protected against loss of value in line with their risk profile. As part of a comprehensive relaunch, we will continue in 2010 to tailor products relating to fundlinked asset management to match customer requirements.

Furthermore, we assist the savings banks in cooperation with the DSGVO in developing and enhancing high-quality professional consultation and support processes.

### Institutional products

The range of products tailored to the requirements of institutional investors, comprising investments by the savings banks for their own account and by institutional customers, has also been streamlined and now centres on the core requirements of this target group. Development focused mainly on products to optimise payouts, multi asset funds (MAF) and Deka Loan Investments (DeLI), through which the savings banks can participate in infrastructure and property finance. DeLI represents an example of the integrated approach of DekaBank's business divisions. C&M and AMI act as credit providers while AMI is responsible for fund management and AMK for administration and institutional sales.

AMK is increasingly offering overlay management for the numerous Master KAG mandates, which are designed to pool assets under management in one investment company. This type of management facilitates strategic and tactical management of asset allocation at overall portfolio level and has proved successful in promoting customer loyalty.

Institutional Sales is responsible for institutional customers on the basis of key account management. Institutional Sales manages sales of the institutional products of all business divisions on a centralised basis. In cooperation with product specialists, Institutional Sales supports the savings banks in strategic issues, fund allocation, custody account and loan portfolio analysis as well as risk management.

## Strategy in the AMI business division

The strategy in the AMI business division is based on the efficient combination of Asset Management and Real Estate Lending. The available resources are used to buy, sell and manage property as well as for active property loan portfolio management. On the strength of direct access to attractive property assets and investors in Germany and abroad, AMI ensures consistent product quality and reliable sales and income contributions. The types of property use (hotels, shopping, office and logistics) and regions serviced are matched as closely as possible in Asset Management and Real Estate Lending. By using the same local expertise in representative offices and coordinating customer activities, significant synergies are leveraged within the business division.

### Property-based asset management

The open-ended mutual property funds, some of which were consolidated in the year under review, are consistently geared to private investors. The WestInvest Immo- Value is the only exception in this respect. AMI operates a strict stability-driven investment strategy. Investments focus primarily on core and core+ property with long-term rental income. At the same time, importance is attributed to balanced regional diversification. Funds received from non-Group funds of funds and institutional investors are specifically channelled into other types of investment. Sales of open-ended mutual property funds will continue to be managed on the basis of sales quotas, whose volume is determined by investment opportunities and the target liquidity ratio of the funds. This active portfolio management as well as consistent management of inflows and outflows into and from funds ensured DekaBank's consistent presence in the market in 2009, a year in which some competitors were absent at times. In future, stability of earnings for the funds and limited liquidity risks will continue to be the primary goal of fund management in a competitive environment that remains challenging.

On the basis of its position as market leader in retail property funds, AMI also provides suitable investment solutions which respond to the long-term stable demand from institutional investors for steady and tax-optimised property investments in top quality assets. These include property investments with alternative profiles, such as the single sector funds in the WestInvest TargetSelect fund family and the new DeLI product. In 2009, the basis was put in place for accelerating growth in the institutional business of AMI.

### Real Estate Lending

The strategic focus in Real Estate Lending (REL) is financing properties in countries in which the investment companies also invest. In the current high-risk environment, REL focuses particularly on countries in which AMI has a local presence via its own locations. The basic prerequisite for such financing is that the ability to access the capital markets is guaranteed in each case. New business is only conducted selectively and in categories in which the Bank has specific expertise and taking into account yield and risk aspects. REL concentrates, in particular, on properties that facilitate third party use and are therefore suitable for passing on to savings banks or institutional investors via various exit channels, such as syndication and the first German credit fund, DeLI (Deka Loan Investments). The role of REL as a credit provider to Asset Management and syndication arranger in the savings banks sector is set to be expanded further, also with a view to diversifying earnings. In addition, REL is in a position to promote AMI's direct access to business partners significantly. With regard to lending, the focus remains on transparent structures with a conservative risk profile.

### Strategy in the C&M business division

The C&M business division, which acts as a capital market-oriented service provider and product innovator for Asset Management, plays a key role in the implementation of the sharp-edged business model. The value-creation chain in Asset Management is expanded and optimised through services that add value, derivatives structuring and generating attractive credit assets. As institutional customers, the savings banks and investment funds benefit from DekaBank's strong liquidity and refinancing profile. Overall, the close integration of fund and capital market business generates additional income for the *Sparkassen-Finanzgruppe*.

### Markets

The Markets sub-division is in charge of all capital market services that support Asset Management and meet the requirements of the *Sparkassen-Finanzgruppe*. As part of efficient product development and ensuring sufficient market liquidity, these services are also actively offered to customers, including other capital investment companies.

Starting from its strong position in traditional commission business with shares, bonds and derivatives, Markets has developed into an integrated provider of tailor-made structured products for managing the performance and hedging the risks of funds within cash and derivatives brokerage. The position in equity derivatives has already been expanded. The sub-division has responded to the growing demand from fund managers for non-linear structures, especially guaranteed capital funds, by intensifying the development and marketing of relevant products. The range of interest rate derivatives is complemented as required by Asset Management. By expanding business with bonds, interest rate derivatives and credit derivatives, C&M is able to offer institutional customers convincing fixed-income solutions from under one roof. Intelligent trading algorithms have been developed for cash trading. The use of these algorithms enables C&M to achieve particularly efficient and intelligent order execution in highly liquid market segments. They are used, for example, for market making relating to ETFs.

The segment of short-term products essentially focuses on the active management of investment fund securities. In this context, repo/lending transactions are particularly important and set to be expanded further. With these transactions, DekaBank generates collateralised liquidity by lending securities from the funds. The liquidity can then be made available to the savings banks and other counterparties. The Bank earns a positive interest margin from this and gives funds the opportunity of enhancing their performance. The aim is to complement this business with synthetic structures in the long term.

We have expanded the product range in Asset Management to include passive products by launching ETFs for institutional investors via ETFlab Investment GmbH. In the year under review, the investment spectrum of index funds, which previously focused on equity funds and funds with government bonds, was broadened to include Pfandbriefe and corporate bonds and has therefore been more precisely tailored to the requirements of the savings banks. A short-index ETF is now also available. To meet growing customer demand for these transparent and favourably priced products, ETF business will be stepped up with the gradual further development of the available range of products. The aim is to reflect the savings banks' passive investment using ETFlab products. This will be accompanied by investment in ETF market making and portfolio trading processes that are eligible for retail business. ETFs are also increasingly used in active asset management, especially in connection with funds of funds.

### Credits

In lending business (Credits sub-division), C&M focuses on asset classes that generate steady cash flows and are therefore of interest for the lending business of the Bank's partners in the *Sparkassen-Finanzgruppe*, either as part of innovative fund solutions such as DeLI or through banking syndicates and syndication. This is also associated with the Bank's development from traditional finance provider to credit investor and risk manager. New business is only undertaken after assessing its suitability for Asset Management and/or for other forms of business to be passed on to our customers.

In public sector finance, the focus is on supplying the savings banks with liquidity. Transport infrastructure financing is provided very selectively and primarily in certain regions within the EU, while energy and utilities infrastructure financing is primarily provided in the form of participation in syndication. In aircraft and ship finance, C&M focuses on renowned contractual partners and ensures regional diversification. Export finance is limited to ECA covered transactions.

### Treasury

The Treasury sub-division is responsible for refinancing new business. It uses the Bank's liquidity surplus for strategic positions in the context of asset allocation and ensures ongoing development of the relevant management tools. In addition, Treasury manages the market risks associated with investments for the Bank's own account. At organisational level, Treasury is clearly separated from customer-driven business in the Markets sub-division.

### Strategy in Savings Banks Sales

Savings Banks Sales plays an important part in the Group's extensive market presence. It constitutes the link between Asset Management and the customer advisers in the savings banks. Based on an in-depth understanding of end customer requirements, the Savings Banks Sales unit supports customer advisers in raising retail customers' awareness of products, some of which are highly complex and require explanation, as well as the underlying trends. In 2009, the unit once again focused on providing prompt and transparent information to customer advisers and fund managers about suitable investment strategies during the financial market and economic crisis. Support for the savings banks in their differentiated customer approach will be among the key initiatives over the coming years.

## Strategy in non-core business

In non-core business, the Bank's strategy is based on reducing the portfolio volume while safeguarding assets. In consultation with an accountancy firm, securities have been analysed in terms of their value and expected cash flow. Depending on the prospects in the relevant market, the potential write-ups and risk parameters, including probability of default and spread fluctuations, strategies are defined for the various securities to ensure the best possible impact on DekaBank's enterprise value. Different options are available for this purpose, ranging from disposal in the short term to holding the securities to maturity. The strategies are continually adapted in line with market changes.

## Sustainable business policy

DekaBank's mission 2012 reflects its commitment to a sustainable business policy, which reconciles economic, environmental and social aspects. During the year under review, we adopted a sustainability strategy based on the sustainability strategy of the Association of European Savings Banks and the focus of the Deutscher Sparkassen und Giroverband on the common good, and are implementing the strategy by taking targeted measures. We intend to provide a forward-looking response to global and social challenges while at the same time exploiting economic opportunities in the interests of our shareholders - with a long-term, risk-oriented and responsible approach.

At DekaBank, sustainable corporate management essentially covers the four dimensions of sustainable banking, sustainable HR management, sustainable banking products and social responsibility. Additional central requirements include transparent and open communication of results and progress.

## Sustainable banking

DekaBank is committed to ensuring that its business operations affect the environment as little as possible. To this end, the Bank revised its environmental management procedures in the year ended and further developed its environmental management system. DekaBank promotes sustainable commitment to protecting the environment over and above the legal minimum standards, and involves employees and business partners in this approach. The Bank sets itself targets for the continuous improvement of its environmental assessment, which also relate to efficient use of natural resources. The objectives of the environmental management procedures include reduced energy, paper and water consumption and a lower environmental impact from business travel. Environmental aspects are assessed according to standard criteria and regular environmental reports provide transparent information about these. In April 2009, DekaBank's environmental management was certified to European DIN EN ISO 14001 standard.

## Sustainable HR management

DekaBank responds proactively to the challenges of demographic change. As an attractive and responsible employer, we appeal to qualified staff and ensure their loyalty to the Bank in the long term. As a matter of fact, the Bank promotes key qualifications in practice, maintains active health management and is committed to equal career opportunities for men and women. In mid-2009, DekaBank was once again awarded the certificate of the Hertie Foundation as a family-friendly company following a comprehensive renewed audit. For more information, please refer to the Employees section on pages 25 to 27.

## Sustainable banking products

In product development, we adhere to internationally recognised sustainability standards. This approach takes account of the growing social and ecological requirements of institutional and private investors and minimises corporate and social risks. We consider sustainability aspects in connection with investment products, for example when buying properties for property funds, and in financing. We avoid any loan decisions which are not justifiable from an ecological, social and ethical point of view. Since 2009, DekaBank has taken into account the Equator Principles as part of its project finance business. These principles encompass socially and environmentally responsible standards and are based on the relevant guidelines of the International Finance Corporation (IFC), a World Bank subsidiary. Against this backdrop, the existing negative list was extended to include any project finance that does not meet the requirements of the Equator Principles.

In Asset Management and capital market business, there are several current examples of consistent compliance with environmental and sustainability aspects:

- The sustainability fund of funds DekaSelect: Nachhaltigkeit launched in January 2009 invests in sustainable and ethical funds and takes into account specific aspects of ecological and sustainable investment, including environmental technology, renewable energy, water and micro-financing.
- Deka Immobilien GmbH acquired two office buildings for the Deka-ImmobilienGlobal open-ended mutual property fund, which are certified to LEED criteria (Leadership in Energy and Environmental Design). They are the 1999 K Street building in Washington D.C., designed by renowned architect Helmut Jahn, and the Bentall V building in Vancouver, which was also awarded the Canadian BOMA Best Level 3 ecological and sustainable certificate for properties.
- The fund management of Deka-Stiftungen Balance has cooperated with the Institut für Markt-Umwelt-Gesellschaft

(imug) since mid-2009 to review securities in terms of their fulfilment of recognised criteria for sustainable investment. With this approach, the fund responds to the increased demand from institutional investors for cash investments that meet the requirements of socially responsible investment (SRI). In addition to shares and corporate bonds, Pfandbriefe and government bonds are assessed for compliance with SRI standards. In this respect, imug works with renowned research agency Experts in Responsible Investment Solutions (EIRIS), which is based in London.

- In lending, stringent sustainability criteria are applied with regard to the individual properties, and these are stipulated as contractual provisions. In consultation with our syndicate partners, we withdrew our financing commitment for the Iliisu dam project in Turkey, because contractually agreed World Bank criteria regarding the environment, resettlement and conservation of cultural heritage were not fulfilled.

### Social responsibility

As a member of the community and *Sparkassen-Finanzgruppe*, DekaBank acknowledges that it has a specific obligation in terms of commitment to the common good. Our social commitment focuses on promoting contemporary art and architecture as well as science, social projects and sport. We work in close cooperation with renowned art and cultural organisations, and attach particular importance to ensuring continuity. We invest in long-term partnerships and support the private commitment of our employees to the community.

In financial year 2009, we were once again the main sponsor of the Golf Charity Cup, which comprises 160 tournaments across Germany and takes place in support of *Deutsche Krebshilfe e.V.* (German cancer charity) and its children's foundation, *Deutsche KinderKrebshilfe*. Our traditional Christmas donation to 25 charity projects as part of the DekaBank – Engagiert vor Ort 2009 (DekaBank – making a local commitment) initiative supports the commitment of our employees to their communities in Germany and abroad.

### Risk and profit management at the DekaBank Group

By focusing its business model and taking measures to increase efficiency and earnings, DekaBank intends to pursue sustainable and value-oriented growth, thereby achieving an appropriate risk/reward ratio in the long term as well as attractive return on equity. We use non-financial and financial performance indicators to measure our progress in this respect. Comprehensive reporting on the Group management indicates at an early stage whether strategic and operational measures are successful or if changes are required, and whether the risk/reward ratio is within the target range.

### Non-financial performance indicators

The non-financial performance indicators relate to the various dimensions of our operations and are an indication of the success of our products in the market and the efficiency of our business processes.

Key management indicators in Asset Management (AMK and AMI business divisions) and Savings Banks Sales are

- net sales as the performance indicator of sales success. This results essentially from the total of direct sales of mutual and special funds of the DekaBank Group, fund-based asset management, the funds of our partners and the Master KAG, advisory/management and asset management mandates. Sales generated through own investments are not taken into account.
- assets under management (AuM). Key elements include the income-related volume of mutual and special fund products in the AMK and AMI business divisions, direct investments in cooperation partner funds, the cooperation partner funds, third party fund and liquidity portions of fund-based asset management and the advisory/management and asset management mandates. For comparative purposes as part of the BVI statistics, we continue to use the fund assets according to BVI.
- fund performance and fund ratings to measure product quality; the average development period for new products and the share of new products in the sales success are used to measure innovation and innovation-related efficiency.



- the ratio of intra-alliance business (share of our products in total fund sales of the savings banks and Landesbanken) to measure our acceptance by the Sparkassen- Finanzgruppe and the payments to the alliance partners to measure our added value contribution in respect of our partners within the *Sparkassen-Finanzgruppe*.

In the AMI business division, the transaction volume is also monitored on the basis of property purchases and sales, as well as the rental income across all properties. Additional key indicators measure our success in Real Estate Lending, for example the new business result and the share of loans syndicated to alliance partners and institutional investors.

In the C&M business division, key indicators which facilitate the measurement of the quality of processes and our risk management are relevant alongside financial performance indicators. These involve, in particular, compliance with and utilisation of risk limits, the structure of the loan portfolio and the quality of the trading portfolio.

For Corporate Centres, control systems have been developed which ensure that exacting service standards towards internal customers are maintained.

We also establish staff-related key indicators, such as the age structure of our workforce (see page 26) and develop indicators to measure implementation of our sustainability strategy.

### Financial performance indicators

The financial performance indicators are influenced by the non-financial performance indicators as a result of various cause and effect mechanisms.

The DekaBank Group's risk, earnings and capital management is essentially illustrated by two central financial indicator concepts. The monthly analysis of risk-bearing capacity involves comparing the Group's risk cover funds that may be used to cover losses with the Group risk that has been established across all types of risks with impact on profit or loss (see page 36). In addition, DekaBank aims to increase its enterprise value through a sustained rise in the economic result.

In principle, the economic result is based on the IFRS and includes changes to the revaluation reserve before tax as well as the interest rate-related valuation result from original lending and issuance business alongside net income before tax. This central management and performance variable was introduced in financial year 2005. As a result of the mixed model approach, net income before tax under IFRS is impacted by the different principles used for the valuation of the various assets and liabilities. This in turn means that not all income components that are relevant to the management's assessment of

the profit situation are taken into account. In particular, net income before tax excludes the revaluation reserve, which reflects the valuation result for securities in the available for sale category, and the interest rate-related valuation result from hedged underlying transactions (loans and own issues) outside hedge accounting under IAS 39.

Since 2007, the economic result has already been used in external reporting at Group and business division level. This means that DekaBank complied with the provisions of IFRS 8 (Operating Segments) one year earlier than required. In accordance with IFRS 8, internal management data must be transferred to the segment report (management approach). The valuation and reporting differences with regard to the consolidated financial statements under IFRS must be reported in the reconciliation column relating to Group net income before tax. The items included in the reconciliation column are clearly explained in note [2]. This ensures reconciliation with net income before tax at all times.

Moreover, the economic result forms the basis for calculating adjusted, long-term economic Group net income. This variable, which is adjusted for non-recurring factors and any components that are not sustainable, forms the basis for the corporate valuation of DekaBank as part of medium-term planning. To this extent, the concept is also linked to DekaBank's business strategy which focuses on sustainability (see page 10).

Other financial performance indicators used are return on equity and the cost/income ratio. The total capital ratio in accordance with the Solvency Regulation (SolvV) and the core capital ratio are of primary importance for assessing the adequacy of the total amount of regulatory capital and reserves of the DekaBank Group.

## Economic environment

After the sharp downturn in the 2008/2009 winter halfyear, the global economy picked up far more quickly than expected. This was attributable to committed intervention in monetary and financial policy. Across the globe, trillions of euros in public funds were made available as part of the greatest rescue programme in economic history, in order to temporarily close the gap caused by a shortfall in demand and secure the stability of the financial system. In the second half of 2009, most industrialised countries recorded economic growth again. The recession can therefore be deemed to be over. Concerns voiced at the end of the year that the global economy may slide into depression, sending the financial markets into a downward spiral, although by no means unfounded, did not materialise.

The capital markets anticipated the change in mood in the real economy at an early stage. As a result, prices in the equity and bond markets recovered considerably compared with the previous pessimistic expectations. This stabilised bank and company balance sheets, which in turn strengthened the upward trend, despite the fact that banks had to increase their risk provisions in view of the cyclical increase in loan losses.

With rising prices, the liquidity previously withheld also returned to the financial markets. This contributed considerably to significantly tighter credit spreads on the most risky and less liquid securities. Private investors continue to be risk-aware but are increasingly considering investing in securities in order to benefit from rising prices. Overall, general conditions have improved for DekaBank's Asset Management and capital market business compared with the previous year.

Nevertheless, the situation is associated with considerable future risks. The financial system is still largely dependent on the liquidity supply from central banks. Although the crisis in the real economy has now been overcome, it may yet result in loan losses and further strain on the balance sheets of banks. Recent isolated incidents of distress highlight the fact that the financial system remains fragile. Once the governmental economic programmes run out and short-time working, which is currently being widely used, comes to an end, we can also expect pressure on the labour market. In addition, risks arise from the rising deficits in national budgets. The situation therefore still requires a prudent approach and consistent continuation of the measures introduced to increase efficiency and cut costs.

## Financial market crisis and measures

The measures taken in many countries to stabilise the banking sector have achieved the intended impact to date. Capital injections, guarantees for bank liabilities, the purchase of toxic assets and support to ensure the banks' liquidity helped to avert a systemic crisis in the sector.

In Germany, the Special Fund for Financial Market Stabilisation (SoFFin) worth €480bn had granted stabilisation aid totalling €188.7bn to 25 banks overall by year-end 2009. Of the maximum amount available, banks had utilised 39% by the end of the year. Most of this was for guarantees relating to new debt instruments issued and other liabilities of the financial institutions.

In July 2009, the programme of measures was expanded as a result of the Act on the Further Development of Financial Market Stabilisation. This new act allows banks to transfer toxic securities at their book value less 10% to special purpose vehicles, or so-called bad banks. In turn, they receive bonds for which the SoFFin provides guarantees up to a maximum of 20 years. The difference between the price paid by the special purpose vehicles and the lower market value of the toxic securities may be paid over the maturity period in instalments, which must be diverted from the distribution of dividends by the banks.

## Overall economic trends

By the third quarter of 2009 at latest, all the major national economies had recorded growth in GDP again compared with the second quarter of the year. However, these growth rates should not obscure the fact that considerable under-utilisation persisted, particularly in the industrialised countries. There is no reliable information regarding the proportion of the capital stock which has been destroyed by the crisis. Consequently, there is also great uncertainty with regard to estimates of the current rate of utilisation of the national economies. However, we assume that capacity utilisation in many western national economies will only slowly return to normal levels again in the coming years. Yet contrary to general expectations, the level of global economic output recorded immediately before the start of the crisis was already matched again by the end of 2009. This was mainly attributable to the strong recovery in Asia. In some countries recovery is proving slower, including Germany, where the pre-crisis level is not expected to be achieved again until 2014.



The emerging markets were also severely affected by the global economic slowdown. However, they also succeeded in quickly returning to positive economic expectations again. The situation of decoupled growth that was already evident prior to the crisis continued. Asia (excluding Japan) recorded a growth rate of 5.6% in the year ended. The shift in the focus of the global economy towards the densely populated emerging markets therefore continued, irrespective of the crisis.

Across Europe, the depth of the recession varied and recovery phases also developed differently. The two eurozone heavyweights, Germany and France, already recorded growth again in the second quarter, while the national economies with marked structural problems had not returned to a growth course by year-end 2009. Although most indicators in Spain, Greece and Ireland were pointing upward again, this was evidently not enough for sustained expansion. Overall, the eurozone economy contracted by 4% in 2009. Growth rates in the second half of the year were slightly below the potential growth for the European Monetary Union from the time prior to the crisis.

The German economy is heavily dependent on international demand. This became particularly evident when the global slump in demand essentially dragged down the German economy as collateral damage of the financial market and property crisis. Conversely, the worldwide economic revival resulted in a substantial rise in the demand for German goods and was met by very well positioned companies, which offer a qualitatively and technologically sophisticated range of products at competitive prices.

However, it will take time for this external economic stimulus to be reflected in domestic demand. To date, investments have only been made to replace old machinery, manufacture new products and cut costs. Very few companies have considered expanding production capacity, especially since there are huge capacity reserves in Germany and at global level. Investment in construction has been supported by the German economic packages. The renewal of roads on the basis of economic package I was already in full swing in the first half of 2009, while the positive impact of the funds made available under the second economic package for local infrastructure only started to take effect later. Consumption stabilised the economy in 2009, despite rising unemployment. Available until the end of August 2009, the environmental allowance ("scrap-page allowance") provided considerable impetus in terms of private demand for cars. In addition, the decrease in inflation provided support. The bottom line was that, although the German economy was out of the recession, a sharp downturn in overall economic activity of 5.0% was recorded for 2009 as a whole.

Lessons had been learnt from previous major banking crises. Firstly, the functioning of the financial system needed to be ensured, because the impact of a domino effect would damage the credit system so substantially that it would take years to rebuild it. Secondly, the economy also needed to be stabilised particularly if – as was the case this time – the slowdown resulted from a shock in terms of expectations. After the collapse of Lehman Brothers, many market players expected a sudden deterioration in financing conditions on a large scale, or even the total collapse of the financial system. Following the major shock in autumn 2008, stabilisation in 2009 can be regarded as having been successful even if various risks persist.

### Trends in capital markets

Following the crisis year of 2008 during which practically all asset classes recorded substantial losses, market players started the new trading year with cautious optimism. After all, central banks and governments had made every effort to counter the severe global recession and the associated threats to the financial system. The US central bank (Fed) had already cut key lending rates to virtually 0%, and the European central bank (ECB) was in the middle of a cycle of lowering interest rates. Although the reference interest rate initially was still 2.5%, further cuts seemed just a question of time. Yields in the capital markets were therefore already at a historic low. Ten-year federal bonds in Germany tended towards 3.0%. In the credit markets, the mood was initially upbeat. However, in the equity markets deep pessimism soon took over again. Although the DAX had started the year at a relatively high level of almost 5,000 points, it soon fell to below 3,700 points, the lowest level in five years. The credit market was also affected and spreads increased almost to the highs seen after the collapse of Lehman Brothers. This development was exacerbated by shocking quarterly reports, which revealed substantial losses at investment banks in particular. Furthermore, economic indicators suggested that the first quarter of the new year would be similarly weak to the final quarter of 2008.

However, from spring 2009 onwards, the mood progressively brightened. Banks reported an upturn in business and surprised with positive quarterly results. Leading economic indicators also showed a clear improvement in the economic situation, raising hopes that the deep recession could be over by the summer. Accordingly, the markets launched into an impressive recovery rally, which initially compensated the losses made on shares and corporate bonds since the beginning of the year and eventually resulted in significant profits.

In the wake of these developments, big names in industry and the banking sector issued a record volume of new bonds which were very well received by the market. The favourable trend in the bond market was also remarkable. In summer 2009, concerns emerged about a possible significant future rise in the rate of inflation as a result of the sharp increase in national debt. These resulted in a marked rise in yields. When it became evident that the economic trend would remain moderately positive, fears evaporated. Yields have since come down again. The short end of the yield curve was particularly boosted by the central bank measures to generate liquidity. Although the traditional interbank money market is not yet functioning properly, the liquidity position of banks is more than adequate. The very short money market interest rates have therefore remained at a historically low level.

The trend of the US dollar against the euro provided almost a mirror image of hopes and fears in the capital markets. Well into March, the US dollar was highly sought-after as a safe haven in the crisis and settled at almost €1.25. As hopes of an economic recovery rose, it subsequently lost much of its attractiveness and was eventually down to the low for the year of over €1.50 in the autumn. The oil price trend was similar to the rise of the euro. In February, the price of one barrel of WTI fell to below US\$40 and then rose to over US\$80. Conversely, the steady increase in the price of gold surprised many, with the precious metal repeatedly achieving all-time highs.

At year-end, the markets experienced further turmoil in the wake of the financial market crisis, this time relating to Dubai and Greece. Concerns about the escalating debt ratio of Greece provoked a perceptible rise in risk premiums on Greek government bonds and bonds from some other peripheral eurozone countries. In contrast, bonds and US Treasuries were in demand as a safe haven. Consequently, yields here fell again and, at least at the short end, recorded levels close to the annual lows.

## Trends in property markets

In Germany, accumulated floor space sales in the top 5 locations were down in 2009 by approximately one third compared with the previous year's volume. Although the labour market has proved more robust than expected to date, companies came under pressure to reduce costs and floor space. This resulted in the corresponding decrease in demand. While the downturn in rentals has slowed somewhat, actual rental income has already diminished at a higher rate than nominal rents because of the increase in rental incentives. Rents in prime retail locations have proved very resilient in the crisis. Demand from international retailers was generally higher than supply in this segment. Conversely, tenant interest in locations off the highstreet was down and accordingly such locations recorded a decline in rent levels. In the second half of 2009,

the investment market recorded a considerable revival, in particular an increase in high-volume transactions. Demand primarily originated from domestic investors with considerable capital strength. The rise in city centre yields has come to a halt, whereas the value of assets in suburban locations has continued to rise.

In the European office property markets, the accelerated staff reduction resulted in companies requiring less floor space. This in turn created pressure in terms of vacancy rates and the trend in rents. In some markets, such as Madrid, Barcelona, Warsaw, Budapest and Brussels, brisk construction activity exacerbated the situation. With regard to top rents, volatile locations, including London and Madrid and the financial centre of Luxembourg, recorded the most substantial losses. The transaction volume in the European investment markets rose considerably in the second half of 2009 compared with the two weak preceding quarters. Following extreme jumps in some cases in the previous quarters, the yield trend settled down somewhat. Lead markets, such as London and the British regional markets, have since already recorded the first decreases in top yields.

Vacancy rates in the US office markets increased further in the second half of 2009, although the rate at which space became vacant slowed compared with the previous quarters. City centres have been affected more severely by growth in vacancy rates than suburban locations. The capital available for property investments remained scarce in the USA. The dried up market for commercial mortgagebacked securities (CMBS) resulted in pressure and will continue to represent a risk factor in the future. As a result, transaction volume has remained at a historically low level. After a sharp decline in prices in the second quarter, cap rates stabilised again in the third quarter of the year.

The downward spiral of the Asian office markets slowed in step with the economic recovery. Nevertheless, rental markets remained weak. Significant cost pressure induced some companies to relocate selected business activities to decentralised locations. Bucking the general trend and despite weak demand, South Korea's capital Seoul recorded a further but modest increase in rents. Conversely, Tokyo was among the financial centres that were hit hardest by the downturn in rental income. In Australia's rental markets, demand remained substantially below average. As a result of sub-let space becoming vacant, vacancy rates soared in particular in Sydney, and due to cyclical highs in new construction in Brisbane and Perth. Melbourne on the other hand continued to show resilience. A similar picture emerged with regard to rents, with Brisbane and Perth recording the sharpest decline.

## Investor attitudes and sector development

As at the reporting date, investors had withdrawn €1.1bn from the mutual securities funds included in BVI statistics. Following funds outflows on a massive scale in the previous year, the situation has therefore stabilised considerably. A high volume of fund units was only returned to money market funds as a result of unfavourable performance. These outflows were countered by strong growth, especially in equity and mixed funds. The decisive factor was an attractive yield in almost all asset classes. Equity funds investing at international level as well as funds with a focus on Germany achieved a 27.3% increase in performance on average. The net funds inflow into open-ended mutual property funds amounted to €3.2bn. With an average performance of 2.5% over a period of one year, they fell slightly short of performance in the previous years. As in previous years, special funds for institutional investors recorded a high inflow of funds and improved their performance significantly.

Despite the positive performance of equity and investment funds, the number of shareholders and fund unit holders declined from 9.3 million to 8.8 million in 2009 according to information from the Deutsches Aktieninstitut (German Equities Institute, DAI). The number of indirect shareholders, in particular, was down. Only 6.6 million investors invested in equity funds or mixed funds, which represents a decrease of around 0.5 million on the previous year.

The moderate trend in funds inflows in active asset management highlights increased competition from other types of securities investments, for example ETFs. Due to sustained uncertainty as a result of the financial market crisis, investors continued to prefer low-risk investments, such as sight and long-term time deposits. Insurance products remained a key element in the formation of financial assets by private households, although new business decreased in the life assurance segment. Overall, financial assets held by private households were up again by an estimated 5% in 2009 after the previous year's crisis-driven decline.

## Business development and profit performance in the DekaBank Group

### Overall assessment by the Board of Management

DekaBank's sharpened business model has proved its worth in the overall rather inconsistent market environment in 2009. Despite higher risk provisions, the DekaBank Group's economic result totalled €661.8m. This represents a significant improvement on the previous year's figure (€71.5m), which was affected by the consequences of the financial market crisis. The close integration of Asset Management and supporting capital market activities, especially active securities and investment fund management and the investment of free liquid funds, resulted in higher income contributions. The positive trend was flanked by the revaluation of capital market credit products which are allocated to core business and which compensated for the negative valuation results still evident overall in the first quarter of 2009. In addition, net commission income was increased in the year ended, despite the challenges faced in fund sales.

In terms of expenses, the various measures taken as part of the quality and process campaign started to take effect. Total administrative expenses were slightly down on the previous year and the cost/income ratio improved from 68.9% to 43.5% year-on-year.

The challenging environment for mutual securities funds severely limited net sales in Asset Management. At €-2.5bn, net sales in the AMK business division were considerably down on the previous year (€0.5bn) as a result of the consequences of the financial market crisis. In fund-based asset management, the outflows of the previous year were significantly reduced on the basis of a revised concept, with a positive trend in the second half of 2009. Sales of special funds, Master KAG and advisory and management mandates for institutional investors rose sharply. Based on moderately increased sales quotas for open-ended property funds, net sales of AMI rose overall to €2.5bn (previous year: €1.4bn). Net sales of AMK and AMI were therefore almost balanced in 2009 (previous year: €1.9bn).

The performance of our funds was significantly up on the previous year. Approximately four fifths of our equity and bond funds outperformed their relevant peer groups and achieved substantial price gains for their investors. Income contributions from the active management of selected securities portfolios as part of repo/lending transactions reinforced this trend. More than one in five equity funds and one in three bond funds received an above-average fund rating from Morningstar by year-end. The opened mutual property funds achieved average annualised volume-weighted yields of 3.0% in a difficult market environment (previous year: 4.4%).

Overall, the pleasing performance of our funds boosted new business and at the same time was the driver for the increase in assets under management (AMK and AMI) from €142.5bn to €151.2bn. In terms of fund assets, according to BVI, the DekaBank Group remained in second place for mutual securities funds in the German market at year-end 2009. With regard to open-ended mutual property funds, we have confirmed our position as the market leader.

At 81.3%, the ratio of intra-alliance business, or the share of our products in total fund sales of sales partners, was below the previous year's figure (2008: 85.7%) as a result of the impact of the financial market crisis on fund sales. Overall, the ratio of intra-alliance business continues to highlight DekaBank's important role for the fund sales of its sales partners in the *Sparkassen-Finanzgruppe*. Payments to the alliance partners decreased from €1.1bn to €0.9bn. Compared with the previous year, the figure was affected by a lower sales performance and lower average assets under management as a result of the financial market crisis. We measure our added value contribution for our partners in the *Sparkassen-Finanzgruppe* on the basis of payments to the alliance partners. These include the transferred front-end load from the sale of funds as well as sales performance compensation, sales commission and asset management fees.

Capital market business, which is pooled in C&M and supports Asset Management, delivered a pleasing performance in the reporting year. The DekaBank Group's comfortable liquidity position, among other things in terms of supplying liquidity to the savings banks, was comprehensively utilised. Compared with 2008, net interest income markedly increased due to the targeted investment of liquid funds, in particular. As this is a long-term investment, income contributions of a similar level are expected up until 2015. In addition, brisk customer trading, particularly in corporate bonds, and transactions relating to the investment of liquid funds produced very positive net financial income.

Following selected disposals and the scheduled maturity of individual positions, the volume of non-core business was down by 15.6% from €9.6bn to €8.1bn.

Financial strength and guaranteed risk-bearing capacity at all times provided DekaBank with major competitive advantages again in financial year 2009. Standard & Poor's and Moody's, the leading international rating agencies, affirmed their strong ratings for DekaBank. The rating for long-term unsecured debt was confirmed A (by S&P) and Aa2 (by Moody's), with both agencies stating a stable outlook.

### Profit performance of DekaBank

In the financial year ended, DekaBank once again achieved satisfactory results. The total of net interest and net commission income, trading profit or loss and other operating income amounted to €1,444m. Net interest income and net income from equity investments decreased by €257m to €1,269m (previous year: €1,526m). Net interest income outstripped the previous year's figure by 14.5%, essentially as a result of higher net margin income from customer business. Conversely, net income from equity investments more than halved compared with the previous year following lower profit distributions and profit transfers.

At €181m, net commission income was also down on the previous year's figure of €285m. With a negative trading result of €-304m (previous year: €20m), the item ordinary operating income amounted to €1,444m, which represents a decline of €680m on the previous year. Other operating income totalled €298m (previous year: €294m). Intra-Group services once again accounted for the major share of this item. In the financial year ended, operating expenses decreased slightly by 0.5%. The success of the quality and process campaign is reflected by this decrease in operating expenses, which including depreciation fell by 16.9% to €326m. As at the reporting date, net income before risks amounted to €757m and was €677m down on the previous year's level.

In the wake of capital market developments, the balance of the valuation result from lending business, securities business and equity investments totalled €-202m in the financial year ended (previous year: €-943m). The negative valuation result reflects the further increase in provisions for loan losses compared with the previous year and in particular the rise in specific valuation allowances. Revaluations in securities business impacted favourably on the valuation result.

After deduction of the interest on typical silent capital contributions, tax on profits and the allocation to the fund for general banking risks to strengthen core capital, DekaBank achieved operating profit after tax of €56.5m, which almost matched the previous year's level (Fig. 2).

## Business development in the AMK business division

In the AMK business division, net sales were negative as a result of the impact of the financial market crisis and the low yields on money market funds.

Following in-depth analysis of profitability and sales aspects, AMK streamlined its product range. As a result of combinations and closures, 52 funds and fund unit classes were discontinued. At the same time, we enhanced the product range to include solutions that respond specifically to the increased need for safe investments on the part of investors by offering quantifiable income with transparent products.

With considerably enhanced performance, especially of equity and bond funds, AMK created the basis for growth in net sales in the coming years.

## Net sales performance and assets under Management

AMK's net sales performance totalling €-2.5bn was considerably down on the previous year's figure (€0.5bn); (Fig. 3).

Net sales of mutual securities funds and fund-based asset management amounted to €-5.5bn (previous year: €-0.3bn). Especially money market funds saw increased returns of fund units as a result of the fundamental change in the interest rate environment. In contrast, mixed funds recorded positive net sales (€0.7bn) along with the high-margin equity funds (€0.4bn). In fund-based asset management, which essentially encompasses the Deka-Struktur funds of funds and the Sparkassen-DynamikDepot, the situation was far stronger than in the previous year. Although at €-1.8bn net sales were still negative, outflows amounted to only around a quarter of the figure reported in the previous year (€-6.5bn). The Sparkassen-DynamikDepot faced a particularly high level of funds outflows (€-1.3bn). Changes at concept level, above all the introduction of maximum loss limits for three types of securities accounts, helped to minimise the funds outflows expected in view of the loss in value. Despite outflows, the existing overall portfolio volume was maintained as a result of the strong performance.

Fig. 2 Profit performance of DekaBank

€m	2009	2008	Change	
Net interest income	1,269	1,526	-257	-17%
Net commission income	181	285	-104	-36%
Trading result	-304	20	-324	(< -300)
General administrative expenses	597	616	-19	-3%
Risk provision/valuation	-202	-943	741	79%
Income tax	16	-16	32	200%
Net income after tax	57	45	12	27%

At €3.0bn, net sales of special securities funds as well as Master KAG and advisory/management mandates were significantly up on the previous year (€0.8bn). The upward trend was attributable in approximately equal parts to special funds and Master KAG mandates (€0.9bn each) and advisory and management mandates (€1.2bn). This means that the negative trend in special funds from the previous year was reversed thanks to high demand from institutional customers. With regard to mandates, the focus was not so much on achieving growth in terms of volume but rather on strengthening customer relationships.

Assets under management in special funds and relating to advisory/management mandates (excluding Master KAG mandates) increased by around 13% to €39.3bn (previous year: €34.7bn) on the strength of the positive net sales and strong performance.

### Expanded product range

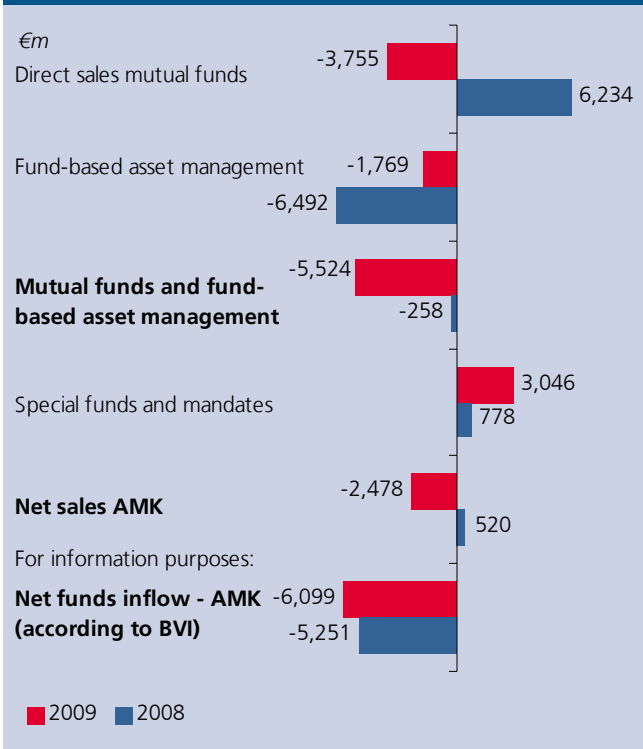
In the year under review, AMK once again responded to investor requirements at an early stage and provided convincing product solutions across all fund categories.

We have launched two equity fund products, which enable investors to participate in the growing importance of the emerging markets. As an extension of the highly successful series of convergence products, the Deka-Russland fund reflects the Russian equity market. The Deka-EmergingAsia fund invests in the emerging economies in Asia, most notably China and India.

The product launches with highest inflow were bond funds. Deka-EuroRent funds, which make diversified investments in euro-denominated bonds and euro-hedged bonds, and Deka-RentSpezial are new fund series that were carefully matched to meet demand from many investors for quantifiable and transparent products. Deka-Rent-Spezial pools investment grade bonds from 25 renowned companies, thereby exploiting the attractive environment dominated at times by high yield spreads while broadly diversifying default risk. The disbursement profile of Deka-RentSpezial Plus 1 ensures that opportunities for gains can be calculated.

The successful product group of guaranteed funds was complemented by a further variant, the new Deka-CapGarant concept. The three funds launched in this series to date combine capital protection with full participation in any price gains on the underlying eurozone index basket up to a maximum level (cap) specified when the fund was launched. This also enables investors who require a particularly high degree of security to benefit from the greater yield prospects of the equity market.

**Fig. 3 AMK sales performance**



As a result of the strong fund performance, assets under management in the AMK division increased 5.3% to €130.1bn within a year (previous year: €123.5bn); (Fig. 4).

Of this, mutual funds and fund-based asset management accounted for €90.9bn (previous year: €88.8bn). Equity funds climbed highest, with fund assets rising by more than €4bn. In contrast, the volume of low-margin money market funds declined by around €9bn as a result of high funds outflows. This improved the portfolio's overall margin structure and creates an opportunity for generating higher net commission income in subsequent years. The DekaBank Group's share of the mutual securities funds market in terms of fund assets according to BVI amounted to around 19%.



Since early 2009, a further fund-based Riester product has been available to investors in the old-age provision segment, Deka-ZukunftsPlan. Investments in this product are largely managed individually for each customer. Unlike the case of Riester pensions, all investors can additionally save withholding tax-free by making unlimited deposits and can benefit from the capital guarantee at the start of the disbursement phase. The equities proportion is adjusted flexibly in line with the respective situation in the market. This product guarantees the paid-in premiums and state allowances at the start of the disbursement phase as well as the highs reached by the provision portfolio in the final five years prior to this phase. Deka-Bank was also one of the first providers in the market to adjust its working hours accounts to meet the new regulations under the Act to Improve General Conditions to Ensure Flexible Work Time Regulations (known as the Flexi II Act). A trust and assignment model coupled with the use of guaranteed funds now enables employers to ensure capital preservation and security in the event of insolvency as required by the law.

By revising the concept of fund-linked asset management, we have made this far more flexible for advisers in the savings banks and for end customers. In addition to the introduction of maximum loss limits, the changes to the concept include more flexible management of the equities share and the use of hedging instruments, as well as a focus on certain asset classes or segments. Based on the guiding principle of sustainability, the additional DekaSelect fund of funds solution was created for fund-based asset management. It enables private investors to combine the notion of sustainable investment with the proven benefits of a well-structured investment. To achieve this, investments are made exclusively in sustainable funds.

For savings banks as institutional investors, we launched the A-DekaKonzept 1 fund, which provides yield opportunities on collateralised liquidity investments. The solution is a good example of how the close integration of capital market and fund expertise creates convincing products which meet our claim to excellence. Guided by the aspect of sustainability, the new Deka-Stiftungen Balance fund was geared to the requirements of institutional investors (see page 10).

**Fig. 4 Assets under Management AMK**

€m	31.12.2009	31.12.2008 <sup>1)</sup>	Change	
Equity funds	19,900	15,604	4,296	27.5%
Capital protected funds	6,245	5,814	431	7.4%
Bond funds	28,070	29,592	-1,522	-5.1%
Money market funds	17,148	25,695	-8,547	-33.3%
Mixed funds	6,389	4,275	2,114	49.5%
Other mutual funds	4,405	1,340	3,065	228.7%
<b>Owned mutual funds</b>	<b>82,157</b>	<b>82,320</b>	<b>-163</b>	<b>-0.2%</b>
Partner funds, third party funds/liquidity in fund-based asset management	6,851	5,193	1,658	31.9%
Partner funds from direct sales	1,855	1,296	559	43.1%
<b>Mutual funds and fund-based asset management</b>	<b>90,863</b>	<b>88,809</b>	<b>2,054</b>	<b>2.3%</b>
Special securities funds	28,426	25,980	2,446	9.4%
Advisory/management mandates	10,826	8,726	2,100	24.1%
<b>Special funds and mandates</b>	<b>39,252</b>	<b>34,706</b>	<b>4,546</b>	<b>13.1%</b>
<b>Assets under management AMK</b>	<b>130,115</b>	<b>123,515</b>	<b>6,600</b>	<b>5.3%</b>
For information purposes:				
<b>Fund assets - mutual funds AMK (according to BVI)</b>	<b>105,521</b>	<b>102,591</b>	<b>2,930</b>	<b>2.9%</b>
<b>Fund assets - special funds AMK (according to BVI)</b>	<b>45,893</b>	<b>41,804</b>	<b>4,089</b>	<b>9.8%</b>

1) In February 2009, the BVI introduced a new classification system for individual asset classes. To facilitate comparison, the relevant reclassifications have been applied in individual asset classes for the 2008 figures.



## Fund performance und rating

Our equity and bond funds are again among the best in their class. As at year-end 2009, 84% of our equity funds (previous year: 23%) outperformed their relevant benchmark. With regard to bond funds, the proportion also rose sharply from around 30% in the previous year to 85% at present.

DekaBank also performed well in terms of ratings. As at the end of December 2009, investment research firm Morningstar allocated an above-average rating to 32.6% of our funds in the three to ten-year monitoring period. At year-end 2008, this proportion stood at 27.5%.

The upward trend was also confirmed by superb placings in other offering and performance comparisons. In January 2009, business magazine *Capital* named Deka Investment top investment company for the first time, giving it the highest score of five stars in all five categories judged. Only nine of the 100 investment companies assessed achieved this top rating. The accolade was confirmed at the beginning of 2010 for the performance in previous years.

This was followed in February 2009 by second place in a comparison of the major providers of bond funds in the Morningstar Fund Awards. This ranking was achieved for good performance based on the new investment process in bond fund management. The overall result was based on the performance of 32 Deka funds with a minimum track record of five years.

As part of the Euro Fund-Awards 2009 presented by *Euro* and *Euro am Sonntag* magazines, the capital investment companies of the DekaBank Group received eleven of the sought-after Golden Bulls for investment funds, which in their respective categories achieved particularly high growth over a one, three or five-year period. Our funds also received recognition at this year's Lipper Fund Awards, winning six awards for consistent, above-average riskadjusted income.

In November 2009, the Deka-ConvergenceAktien fund was rated best Central/Eastern Europe equity fund 2010 in Germany and Austria at the Feri EuroRating Awards. This was not purely in recognition of the fund's excellent performance over a sustained period of time, but also considering qualitative aspects, such as the expertise of fund managers and the portfolio structure. Our DekaStruktur: 3 Chance fund of funds came in third place in the category of global equity funds of funds (5 years) at the *Deutscher Fondspreis 2009*, which is awarded by *FONDS* professionell.

Further confirmation of our claim to excellence came in the shape of the accolade from Thomson Reuters of second best provider of equities research in Europe (Top Buyside Firms – General Equities). This award is based on an assessment of services in more than 30 corporate sectors.

## Business development in the AMI business division

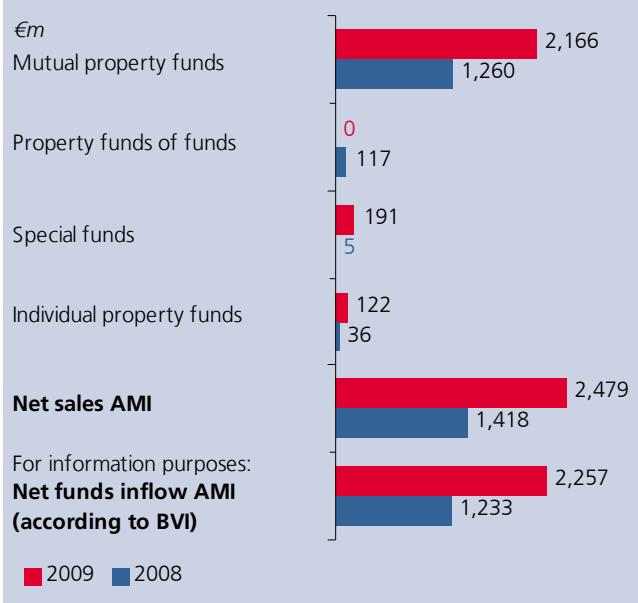
In the year under review, the AMI business division again managed net sales of open-ended mutual property funds consistently on the basis of sales quotas. This once again facilitated a steady performance from AMI in a market environment that remained difficult and enabled the business division to expand its market leadership. While other companies were again forced to suspend acceptance of returned fund units in order to secure liquidity, the DekaBank Group's products remained open without interruption. The absolute liquidity ratios of funds were within the target range at all times and decreased moderately as expected. Thanks to a high letting ratio, the previously moderate vacancy rates decreased further, bucking the market trend and remaining below the sector average overall. On this basis, AMI achieved steady fund performance. As before, acquisitions were only made in line with the utilisation of sales quotas. As a result of the current, risk-aware new business allocation and stabilised external placement successes in Real Estate Lending, the gross loan volume decreased as expected by around 7% to approximately €6.9bn as at year-end 2009.

The key strategic measure in the reporting year was the optimisation of the product range of open-ended mutual property funds. Deka-ImmobilienFonds was combined with Deka-ImmobilienEuropa and WestInvest 1 with WestInvest InterSelect. The transfer of assets was completed following approval by the Federal Financial Supervisory Authority (BaFin) on 30 September 2009, and investors incurred no charges as a result of the change. The combination has produced two high-volume European property funds, which provide great stability, partly due to the high proportion based, at least temporarily, in Germany. At the same time, the size of the managed portfolios ensures an even more robust structure and enhanced risk diversification. Rating agency Scope Analysis gave a positive assessment of the fund combination.

## Net sales performance and assets under Management

The quotas agreed with our sales partners for open-ended mutual property funds were already well utilised by midyear 2009. Sales performance in the second half of the year was therefore limited, despite a high level of demand from savings banks customers. Overall, AMI achieved net sales of €2.5bn (previous year: €1.4bn), of which €2.2bn (previous year: €1.3bn), or around 87%, were attributable to open-ended mutual property funds. With regard to special funds and individual property funds for institutional investors, we achieved a net sales performance of €313m (previous year: €41m); (Fig. 5). Growth resulted mainly from established funds. In addition, the single sector fund concept was successfully launched under the WestInvest TargetSelect product series.

**Fig. 5 AMI sales performance**



Despite distribution of around €0.8bn, assets under management in open-ended mutual property funds increased by 9.3% to €18.7bn in the course of the year (previous year: €17.2bn). Alongside net sales, the positive performance of funds was a decisive factor. On the basis of fund assets according to BVI, the market share increased from 20.4% to 21.6% within a year.

The AMI open-ended mutual property funds exploited the greater financial leeway offered by the well utilised quotas and on the buyer's side were in attractive market segments. Alongside a high letting ratio, sustainability aspects were increasingly considered (see page 10). However, the key concern was still to guarantee that investors would be able to return fund units at all times. All property acquisitions were handled on a centralised basis by Deka Immobilien.

Overall, the funds acquired properties in 15 countries worth around €2.1bn in 2009. This ranks the DekaBank Group among the major property investors worldwide.

### Expanded offering

The WestInvest TargetSelect product family launched in the previous year is aimed at institutional investors looking to make tailored, individual investments in logistics, hotel and retail property. A special fund is set up for each sector under German law, and its investment policy in the first stage concentrates on European core markets and primarily on core and core+ -real estate. The logistics fund launched in 2008 was followed by funds with a focus on hotels and shopping, which have been available to investors since the third quarter of 2009. Following their successful placement, all three funds have started to expand their portfolios in the current year.

**Fig. 6 Assets under Management AMI**

€m	31.12.2009	31.12.2008	Change	
Mutual property funds	18,743	17,151	1,592	9.3%
Property funds of funds	107	117	-10	-8.5%
Special funds	1,959	1,477	482	32.6%
Individual property funds	319	196	123	62.8%
<b>Assets under management AMI</b>	<b>21,128</b>	<b>18,941</b>	<b>2,187</b>	<b>11.5%</b>
For information purposes:				
<b>Fund assets AMI (according to BVI)</b>	<b>20,312</b>	<b>18,284</b>	<b>2,028</b>	<b>11.1%</b>

AMI also launched the first genuine loan funds for institutional investors in Germany. The Deka Loan Investments concept was jointly developed with C&M and AMK. The first two asset classes, Deka Realkredit Klassik and Deka Infrastrukturkredit, were launched in the first half of the year. Deka Loan Investments enable the savings banks, in particular, to participate in commercial financing with small tranches. The conservative investment criteria guarantee a high average rating and favourable collateral structure.

### Fund performance and rating

The performance of the open-ended mutual property funds outstripped the sector average overall. The funds achieved an average annualised volume-weighted yield of 3.0%. In a difficult market environment, the previous year's figure of 4.4% was not matched. Distribution of dividends was largely tax-free. The consistent strategic focus of our property funds and our professional liquidity management are highly regarded in the market. In November 2009, AMI received a Scope Investment Award for the fourth time in a row. This time the Deka-ImmobilienGlobal fund was recognised as best open-ended property funds with a global target market. High praise was given for the steady lease agreement structure achieved in a year of turmoil, which involves low risk in the coming years.

In the first half of 2009, Scope gave the open-ended property funds of AMI an above-average rating again. In three out of six categories, the funds achieved good positions. WestInvest InterSelect and Deka-ImmobilienEuropa continue to be among the top five funds whose target market is Europe. In relation to the target market of Germany, our funds came in at second and third place. Particularly noteworthy is the fact that WestInvest ImmoValue once again received the best rating of AAA. This fund is aimed at institutional investors and invests in real estate in Europe. Again, it was judged to be the best of all the property funds under review.

### Real Estate Lending

The Real Estate Lending sub-division pursued its strategy and focused in particular on markets in which investment fund business is also acquired and in which AMI is represented via its own locations. The carefully maintained local network with relevant market players provided opportunities for attractive new commitments. As in the previous year, the new loans granted primarily related to existing property in categories in which the business division has many years of experience, such as offices, retail space, logistics properties and hotels. In addition, financing was once again made available for DekaBank's own and third party property funds.

Overall, the volume of new loans granted in 2009 amounted to €2.0bn (previous year: €3.5bn). REL achieved higher margins across the board while realising lower loan-to-value ratios and better ratings.

As at the reporting date, the gross loan volume amounted to €6.9bn (31 December 2008: €7.4bn). Commercial property finance with a focus on the office and retail types of use accounted for €4.8bn. Financing of open-ended mutual property funds accounted for €1.6bn and €0.5bn were attributable to the segment of construction finance collateralised by public sector guarantees, a segment which is being phased out.

Despite difficult market conditions, we again succeeded in placing €1.1bn externally in 2009, largely at intra-alliance level (previous year: €1.1bn). To this end, active use was made of the available exit channels including the Stable Value and DeLI products.

### Business development in the C&M business division

In line with Group-wide focussing on driving forward the business model, the C&M business division concentrates more consistently on activities which directly or indirectly support Asset Management along the value-creation chain.

The Markets sub-division systematically expanded its role as service provider for Asset Management in the year under review. Repo/lending business was stepped up and the development of equity and fixed income derivatives accelerated. At the same time, C&M expanded its range of ETF products in line with the requirements of the savings banks. In the Credits sub-division, we largely dispensed with expanding the loan portfolio given the market situation.

### Business development in the C&M business Division

The stabilisation of the financial markets boosted activities in the Markets sub-division. DekaBank made optimum use of its long-term comfortable liquidity situation. Supported by a high level of demand for short-term liquidity, customer trading transactions were expanded. Liquidity, which was partly generated through lending selected securities portfolios from the investment funds, was primarily used to supply the savings banks with liquidity. At the same time, AMK funds also benefited from profitable and comprehensively secured liquidity investment.

The further rise in demand for equity and fixed-income derivatives from capital investment companies and institutional customers was an additional growth driver. The derivatives facilitate risk hedging and simplify the representation of asset classes. They are usually a component of guaranteed products and funds with clear yield targets. C&M comprehensively covered this demand, taking into account the regulatory conditions for institutional business.

Traditional commission business decreased slightly in 2009. By using trading algorithms high-volume orders are executed more efficiently. The algorithms were mainly used in ETF trading.

We substantially expanded the asset classes and strategic spectrum of ETFs via our subsidiary ETFlab. Following the launch of 20 new ETFs in the first half of 2009, institutional investors inside and outside the *Sparkassen-Finanzgruppe* now have access to as many as 32 index funds. The product range offered comprises 20 equity funds as well as 12 bond and money market ETFs. In the course of the year, the volume climbed from €1.8bn to €4.7bn. ETFs on the DAX and the DJ EURO STOXX 50 recorded the highest inflow of funds. The new bond funds built up fund assets worth €0.3bn from the outset.

The overall volume includes the Bank's own portfolios, which ensure a liquid and efficient market and support customers in complying with investment limits.

In the Credits sub-division, the gross loan volume decreased compared with year-end 2008 (€39.6bn) by 13.6% to €34.2bn. These credit assets represent core business and are continually checked in terms of their suitability for Asset Management. For the time being, we have avoided further expanding the loan portfolio and are focusing instead on the evaluation of credit segments and collateral formats that are eligible for Asset Management.

The new Treasury sub-division pools the tasks relating to asset and liability management and strategic investments as well as funding and liquidity management, which were formerly based in Markets. Non-structured capital market credit products which represent core business, such as bonds, CDS and index transactions, amounted to a net volume of €7.4bn as at year-end (previous year: €7.5bn).

## Business development in non-core business

The volume of lending business and credit substitute transactions that do not represent core business decreased from €9.6bn to €8.1bn in the reporting year. Of this, €4.4bn (previous year: €5.3bn) was attributable to loans, €2.9bn (previous year: €3.5bn) to capital market products from the former Liquid Credits sub-division and €777m (previous year: €788m) to the former Public Finance sub-division.

## Financial position and assets and liabilities

### Balance sheet changes

The business volume at DekaBank fell by €8.4bn in 2009, or 5%, to €158.2bn (previous year: €166.6m). Total assets declined by €12.2bn, or 8.5%, from €142.2bn to €130.0bn. On the assets side of the Bank's balance sheet, the decrease in total assets is mainly reflected in the items amounts due from customers and amounts due from banks.

Amounts due from customers were down €5.6bn to €22.6bn and represented around 17% of total assets. Amounts due from banks fell by €8.0bn to €43.3bn (previous year: €51.3bn). This corresponds to a share of 33.3% of total assets (previous year: 36.1%).

Amounts due to customers were down to €19.8bn (previous year: €35.9bn). Amounts due to banks fell by €9.3bn to €32.2bn (previous year: €41.5bn). Securitised liabilities rose by €1.9bn to €42.1bn.

As at the reporting date, on-balance sheet equity again amounted to €1.4bn and accounted for 1.1% of total assets (previous year: 1.0%).

### Loan volume

Lending business focused on lending to banks of €28.7bn (previous year: €32.0bn). This accounted for 51.2% of the total loan volume of €56.0bn (previous year: €63.4bn). The volume of loans to customers of €21.3bn was €1.9bn below the figure at year-end 2008. Contingent liabilities of €3.2bn were up €0.1bn on the previous year's figure. Irrevocable credit commitments totalled €2.8bn, which represents a decrease of €2.2bn on the comparable figure in the previous year.

## Money transactions

Money transactions related mainly to banks in Germany and abroad. Investments in money on call and time deposits as well as repo and lending transactions amounted to a total volume of €15.9bn at year-end 2009 (previous year: €24.2bn).

## Securities portfolio

As at the reporting date of 31 December 2009, the balance sheet item bonds and other fixed-interest securities totalled €38.3bn. This represents a slight decrease of €0.7bn over the course of the year. The balance sheet item shares and other non fixed-interest securities increased by €0.4bn to €10.7bn. With a volume of €49bn, the securities portfolio was attributable to the held for trading category (58.6%), the liquidity reserve (30.8%) and investments (10.6%).

## Change in regulatory capital

DekaBank's capital and reserves in accordance with the German Banking Act (KWG) amounted to approximately €3.6bn as at 31 December 2009, reflecting a rise of €0.2bn on the previous year. Capital and reserves consist of core capital, supplementary capital and Tier III capital.

Core capital also includes the silent capital contributions (€0.5bn), which essentially are of a permanent nature.

Capital adequacy is determined in accordance with the Solvency Regulation (SolvV). In addition to default risks and market risk positions, amounts for operational risks are taken into account when calculating capital adequacy.

The capital and reserves principle under banking supervisory law was complied with at all times throughout 2009, both at Bank and Group level (Fig. 7).

The liquidity ratio at DekaBank ranged from 1.4 to 1.9 in the year under review and exceeded the minimum requirement of 1.0 at all times.

## Employees

### Changes in the staff complement

The number of employees decreased by 6.5% to 3,667 in financial year 2009 (year-end 2008: 3,920). This figure includes 52 (year-end 2008: 67) trainees. There were three main reasons for the reduction in the number of staff:

- The transfer of 115 employees to Dealis Fund Operations, a joint venture of DekaBank and Allianz Global Investors for fund accounting and administration, was completed as at 1 January 2009. A further 45 employees transferred to Dealis S.A. as at 1 June 2009. They are no longer included in the DekaBank Group's staff statistics.
- As part of the quality and process campaign, the reduction in staff capacity by 196.6 FTEs was already contractually implemented during the year under review. This was mainly achieved on the basis of individual agreements to terminate contracts of employment and early retirement agreements (see below).

**Fig. 7 Breakdown of equity**

€m	31.12.2009	31.12.2008	Change
Core capital	2,630	2,379	10.6%
Supplementary capital	963	1,033	-6.8%
Tier III capital	0	0	
<b>Capital and reserves</b>	<b>3,593</b>	<b>3,412</b>	<b>5.3%</b>
Default risks	19,937	21,862	-8.8%
Market risk positions	6,943	6,061	14.6%
Operational risks	1,151	1,052	9.4%
%			<b>Change % points</b>
<b>Core capital ratio (including market risk positions)</b>	<b>9.4</b>	<b>8.2</b>	<b>1.2</b>
<b>Core capital ratio (excluding market risk positions)</b>	<b>12.5</b>	<b>10.6</b>	<b>1.9</b>
<b>Total capital ratio</b>	<b>12.8</b>	<b>11.8</b>	<b>1.0</b>

- The discontinuation of Public Finance activities resulted in a staff reduction by 14 FTEs. The locations affected were London and Luxembourg.

86.3% of the 3,622 staff employed on average for the year (previous year: 86.2%) were in full-time posts. The average number of positions filled decreased by 1.8% to 3,294 (previous year: 3,355). The average age of staff was 39.7 years (previous year: 38.9 years).

### Implementation of the quality and process campaign

The Group-wide quality and process campaign is associated with a socially responsible reduction in staff capacity and the Human Resources Corporate Centre has been closely involved in the relevant personnel management. The outcome of negotiations with employee representatives was agreement on not giving notice to employees for operating reasons until 2013, provided that the reduction of 350 FTEs across the Group by year-end 2011 provides a significant contribution to the required cost savings. This is to be achieved through agreed early retirement, voluntary redundancy options and the increased use of part-time working. At the same time, more intensive use will be made of the internal job market by increasingly appointing existing employees for jobs which are indispensable, despite the staff reduction measures identified.

### Transparent remuneration system

In financial year 2009, we launched the further development phase of our success and performance-related remuneration system. The key aim is to implement the new regulatory requirements, including those stated in the BaFin circular dated 21 December 2009 and entitled "Requirements for the remuneration systems of institutions – 22/2009 (BA)". In accordance with the BaFin circular, financial services providers are required to base their remuneration systems on strategic aims and structure them so as to prevent any damaging incentives to take disproportionate risks, while ensuring that the overall success of the bank is considered. A further BaFin requirement involves setting up a remuneration committee, which we did in February 2010. It is tasked with reviewing the suitability of remuneration systems at least once a year and reports to the Administrative Board.

As part of the collective agreement between banks as employers and the ver.di union, the voluntary 2.5% salary increases granted since November 2008 were stipulated in the collective agreement with retrospective effect. In addition, employees will receive a one-off payment of €200 (trainees of €50) in February 2010.

### Equal opportunities and a family-friendly policy

DekaBank is committed to equal career opportunities for men and women and further enhanced the general conditions for a family-oriented working environment in the year under review. In addition to the equal opportunities plan, which has been in force since the beginning of 2008, an extensive catalogue of measures for future developments was prepared and is regularly reviewed and adjusted as required. One of the objectives is to increase the proportion of women in management positions in the long term, which stood at 16.0% at the end of 2009. A further approach to increasing this figure is by taking greater account of this group when new employees are appointed. Elections for the new equal opportunities officer are also scheduled for 2010.

In 2005, DekaBank was already awarded the basic certificate of the Hertie Foundation as a family-friendly company. Following a comprehensive re-audit, the "audit berufundfamilie" certificate (work-family audit certificate) was again issued in June 2009. DekaBank therefore is one of only 108 companies in Germany to implement voluntary self-assessment of family-oriented HR policy for the second time.

Since the year ended, DekaBank has made kindergarten places available to its employees in addition to the crèche places provided by pme Familienservice. The expansion of the Elder-care services financed by DekaBank is also aimed at promoting the work-life balance. These advisory services are available to employees who are responsible for family members who require care.

### Occupational health management

Demographic change and the increase in lifetime working hours necessitate a stronger focus on maintaining and promoting the physical and mental fitness of all employees. For DekaBank, modern health management therefore represents an integral part of lifecycle-based human resources policy.

Since August 2009, the partners of employees also have access at favourable conditions to the Deka Health Centre, which was opened in the previous year. The Health Centre is run by rehabilitation and prevention specialists, Medical Park, and the Olympic Training Centre in Hesse again had access to the facilities in 2009. In addition to fitness and training opportunities, the Health Centre offers the latest treatment options as well as outpatient services, such as massage and physiotherapy. We have also gained a new partner with first-class expertise, who will provide regular health checks and advice for managers.



In autumn 2009, DekaBank received the *Prädikat-Siegel* distinction of the Corporate Health Award. Organisers, the *Handelsblatt* newspaper, TÜV SÜD and EuPD Research, present the award to companies that make a verifiable above-average commitment to the health of their employees and implement a forward-looking and sustainable human resources policy.

### Professional training and studying while in employment

In 2009, a total of 26 trainees successfully completed their training. The Bank offered a contract of employment to all the interested trainees.

Alongside investment fund sales staff, DekaBank trains young employees to become property experts, Bachelors of Science (in applied information technology), IT specialists in application development, and provides office communications qualifications. In addition, we offer employees the opportunity of studying for Bachelor degrees alongside their job and support employees studying for a degree in investment (Investmentfachwirt) at the Frankfurt School of Finance & Management. We also comprehensively meet our responsibility towards young people prior to training and studying. As part of the nationwide *Fit für die Bewerbung* (Perfecting your job application) campaign, we again gave careers advice to pupils from *Realschulen* and *Hauptschulen* (secondary schools that do not qualify pupils for university entry). We also participated once again in the Girls' Day event and provided information to young women about jobs for which training is available and the opportunities offered by DekaBank.

### Post balance sheet events

No major developments or events of particular significance occurred after the 2009 balance sheet date.

### Forecast report

The structure and content of the section containing the forecast report correspond to the relevant section published in the Group management report. The Group and divisional planning is geared to the Group and the Group management according to business divisions and encompasses all business divisions and legal entities. We have therefore dispensed with preparing a separate corresponding section at Bank level.

### Overall bank strategy

Based on its realigned business model, DekaBank will consistently pursue its strategy, which focuses on adding value on a sustained basis, in financial year 2010 and beyond. The general conditions are in place for closer integration of Asset Management and the supporting capital market business. The next step will be to leverage any remaining potential along the value-creation chain at cross-divisional level. The potential comprises, in particular,

- the further development of instruments used to manage investment funds and scale up the business – for example by increasingly using synthetic products, reducing counterparty risks by using clearing houses and by broadening the counterparty base;
- accelerated expansion of derivatives brokerage with a particular focus on integrated fixed-income solutions from under one roof for the yield and risk management of funds;
- expansion of ETF business, especially by providing professional sales support to the savings banks and expanding the product range also to include additional asset classes, such as commodities. At the same time, market making is to cover additional regional markets;
- the consistent future alignment of core credit business with the requirements of Asset Management, including through actively syndicating fund-based external placements.



Consistent implementation of the quality and process campaign will continue, backed by efficient project control. By investing in the IT environment, the Bank is creating a future-proof IT architecture which is based on business processes. These measures secure the DekaBank Group's competitiveness in the long run and complement our performance promise to partners in the *Sparkassen-Finanzgruppe*, they have access to smart products, ambitious sales support, flexible liquidity and the best available, highperformance processes.

### Forward-looking statements

We plan our future business development on the basis of assumptions that seem the most probable from today's standpoint. In spite of this, our plans and statements about future growth are fraught with uncertainties and more so than ever in the current market environment. The actual trends in the international capital, money and property markets, or in DekaBank's business divisions, may diverge markedly from our assumptions. For the sake of providing a balanced presentation of the major opportunities and risks, these are broken down according to business division. In addition, the risk report included in the Group management report contains a summarised presentation of the risk position of the DekaBank Group.

### Anticipated external conditions

#### Expected macro-economic trends

In the past year, the global economy recovered surprisingly quickly. Comprehensive economic policy intervention halted the spiral of negative expectations. Modest economic expansion commenced which, according to our estimates, will continue in 2010. The stimulus provided by monetary and fiscal policy continues to fuel demand sufficiently. Overall, we expect a rise in global GDP of 3.9%.

This level of recovery is comparatively weak for a postrecession phase. This is due to the fact that the "crisis underlying the crisis" has yet to be solved. Although monetary and fiscal policy alleviated the acute banking problems and lack of demand in the past year, it will not be able to compensate in just a few months for the financing imbalances that have arisen in the global economy over years. The adjustment of the global economic structure to the new financing environment will take years. During this time, global economic growth is likely to be relatively low.

After one of the deepest recessions since the Great Depression in the 1930s, the US economy faces an unusually tough phase of recovery and will start the new economic upswing from a very weak position. However, the boost from the economic package will cover up this fact well into 2010. The expected

GDP growth rate of 3.4% for 2010 is therefore primarily based on impetus provided by the state and does not really deserve to be described as an upturn so far.

The German economy will again be dominated by exports in the current year. The global economic revival has resulted in increased demand for German goods. However, our expectations in terms of domestic demand are subdued. Consumption will prove to be an obstacle in 2010. Unemployment figures will continue to rise and the new collective wage agreements are likely to be very modest. In addition, the cost of the government scrappage allowance is likely to become apparent. Private demand for cars is set to slump and less money will be available to consumers to spend on other items due to their having to finance the purchases of cars bought in the previous year. Nevertheless, we expect growth of 1.4% in GDP for 2010.

Although reasonable, this growth rate is too low to provide positive impetus for the labour market. The labour market therefore faces one of its greatest challenges since Germany's reunification. Prior to the financial market crisis, it was in relatively good shape. The reforms of previous years coupled with a strong economic trend meant that the rate of unemployment was almost halved to 7.1% from the high in 2005 of 12.7%. During the crisis, working hours accounts and more extensive company agreements as well as regulations on short-time working and the short-time working allowance proved to be the decisive instruments in labour market policy. Redundancies for operating reasons have therefore been largely avoided. However, at the end of 2009/beginning of 2010, there was a significant seasonal rise in unemployment. The impetus provided by the scrappage allowance in the automotive industry has ended and with economic stimulus programmes expiring, a further support for the upturn will disappear. Although the negative scenario which has emerged this year with its prediction of more than five million unemployed is unlikely to materialise, an increase in the registered unemployment level approaching four million is foreseeable.

Stabilisation was the watchword for 2009, whereas 2010 will be all about leaving behind expansionary economic policy. This applies to central banks as well as finance ministers worldwide. Debt levels have increased substantially following unparalleled fiscal measures. Growth alone will not be enough to reduce these mountains of debt. Consolidation of public budgets will also be required. Many countries have proved in the past that the combination of growth and consolidation over a period of several years can achieve an effective reduction in the level of national debt. However, because of the way the election cycle operates, we do not expect to see first steps in the direction of consolidation in Germany until 2012.

## Expected trends in the capital markets

The ECB and the Fed have both continually revised their economic outlook upwards and now expect improved growth prospects. Although lending is still far from satisfactory and the interbank money market is not yet functioning properly, central banks have already announced the cautious phasing out of the extraordinary liquidity supply. The ECB has already announced that it will let the 12-month tenders run out. The next step should be a switch to the interest rate tender procedure for the 3 and 6-month tenders, which we expect in the second quarter of this year. Key refinancing transactions are not likely to be changed to interest rate tenders until the end of the third quarter. This would mean that liquidity conditions would remain very favourable. We believe that the debate about the sustainability of national debt in the eurozone countries will continue. As a result, consolidation pressure on public budgets is likely to remain high and to accelerate the exit from highly expansionary financial policy in some countries. This would contribute to monetary policy having ample time to implement interest rate increases. We do not therefore expect to see the first interest rate rises by the ECB until 2011.

In the USA, the Fed has already completed its US Treasury buying programme as scheduled and will also discontinue purchasing other securities in the course of the year, depending on developments in the mortgage markets. However, the central bank is likely to take its time with increasing the extremely low interest rate level of 0 to 0.25%, probably until the end of the year. Consequently, the bond markets will have plenty of advance warning to prepare for a higher interest rate level. We therefore assume that interest rates will rise comparatively slowly.

Since the money market will still receive substantial support from the ECB, in the first half of the year at any rate, the relative steepness of the interest rate curve is also likely to continue. The Pfandbrief market has already benefited significantly from the ECB's covered bond purchase programme, and spreads have fallen to a very low level. As the ECB will still implement its resolution to invest up to €60bn in the covered bond market, not much is likely to change with regard to low spreads. Once this measure comes to an end in the summer, spreads may rise again, especially since a substantial maturity volume will then need to be refinanced. However, the renewed confidence of customers in this product and high investment requirement of European banks for safe and liquid products should generate sufficient demand.

The huge interest in corporate bonds, which resulted in record levels in the primary market in 2009, is likely to continue to provide strong support in this market segment. Many companies have used the crisis, and indeed in many cases were forced to use it, to significantly cut costs, streamline their

corporate structure and, in some cases, reduce their gearing ratio. With the economy picking up again, these companies are likely to record rising profits, especially since some competitors were squeezed out of the market. The trend in spreads on corporate bonds will probably continue to benefit, although to a lesser extent than in the second half of 2009. In addition, investors need to bear in mind that the general interest rate level is likely to rise again and when it does, price gains will largely be eroded. These expectations should also result in rising share prices in the stock markets, although much was already anticipated in 2009. We expect a slightly favourable trend in share prices. However, a temporary setback may occur mid-year if the economic development does not quite live up to some high expectations and therefore companies are also denied their profit expectations.

## Expected trends in property markets

In the macro-economic environment described, rents in the commercial property markets are expected to decline further in 2010 and not recover until 2011, when the low level of new construction will impact. We expect the highest total income in the European office property markets to be recorded in Madrid, London, Barcelona and Paris up until 2014, in other words, in the locations which were hardest hit by the crisis. According to our forecast, San Francisco and Manhattan Midtown will outperform the sector in the USA.

The European investment markets have achieved a trend reversal, with investments against the cyclical trend becoming increasingly attractive at controlled risk. Since growth in terms of rent will only start to gather pace in the medium term and the decline in yields will remain limited, the window for favourable investments will remain open after 2010. In the USA, the correction in the investment markets continued initially in 2010. We expect a substantial recovery in prices from 2011 onwards. The prime segment will be the first to reflect this development, with it subsequently trickling through in the property market across the board. As markets will recover later than in Europe, there is no hurry for investors to act.

In the Asian office markets, we expect an ongoing although slowing correction in rents in 2010, with a subsequent recovery from 2011 onwards. The sharpest decline in rents in the current cycle affects Singapore, Hong Kong and Tokyo. However, the moderate volume of new construction in the Japanese capital should mitigate the trend in vacancy rates. In Australia, we forecast a further modest decrease in rents for Sydney while the decrease in Melbourne is likely to be only slight in general.

Unlike the office markets, demand in retail is marked by steadier consumer demand from the population. Particularly prime locations in city centres have recorded a very strong rental

income level. In the steady consumer markets of Germany and France, we anticipate only minor market corrections overall. In view of the fact that rents have proved robust to date in the Spanish market, despite its having been hard hit by the construction and property crisis, we expect any corrections outstanding to occur in 2010. We believe that this adverse effect will also be significant in Hungary and the Baltic states.

The importance of the logistics sector is set to rise. Logistics properties provide diversification in portfolio structuring and offer higher yields than mixed-use office and shop buildings, while ensuring a lower level of volatility in rents and income. The Western European core markets of Belgium, the Netherlands, France and Germany remain sought-after locations for pan-European distribution centres. In Central Europe, Poland and the Czech Republic have already established themselves. The importance of the Central and Eastern European countries is set to increase in the medium to long term.

### **Expected business development and profit performance**

Following the strong result in 2009, the DekaBank Group's target is to maintain its economic result in core business at a high level in the coming years and increase it in the long term. This growth will be driven by rising income and the consistent implementation of the measures taken as part of the quality and process campaign.

DekaBank uses the high liquidity margins in the securities business, as well as high-margin lending business, which is eligible for Asset Management, to ensure steady net interest income on a sustained basis. Expectations in terms of net commission income remain subdued, despite a planned rise in net sales and the higher level of assets under management. We do not expect fundamental market conditions here to improve before 2011 and will continue to focus on the earnings power of customer-driven capital market business with securities and derivatives. At the same time, we expect the active use of collateralised liquidity investment to generate a sustained positive impact on net financial income. With regard to expenses, we anticipate that the measures introduced as part of the quality and process campaign will prove their worth in subsequent years. In view of our restraint in terms of investments, depreciation should also remain at a low level.

In non-core business, the portfolio will gradually be reduced in the coming years with a view to optimising value in the long term. In line with the reduction in the portfolio volume, the risk position is also set to decrease disproportionately compared with core business.

### **AMK business division**

In the AMK business division, DekaBank will continue the successful stabilisation of its investment policy. From today's point of view, the focus on the product and sales side will remain on products which provide security-oriented investors with quantifiable yields at reduced risks and with maximum transparency. At the same time, the concept for fund-linked asset management will be developed further. This is aimed at making attractive and tailor-made long-term solutions available to customers of the savings banks, in line with their individual risk profile. In addition, DekaBank provides product and consultancy campaigns to support the savings banks.

As in the previous years, AMK will make a significant and steady contribution to the DekaBank Group's earnings growth. However, the market environment continues to present extraordinary challenges.

Prompt identification and implementation of global growth trends as well as increased sales activities continue to offer opportunities for AMK. Risks result in particular from the prevailing unfavourable capital market trend, which may be reflected in a decline in prices and yields or outflows across the sector from individual fund categories.

### **AMI business division**

Following the successful consolidation of open-ended mutual property funds and the establishment of stronger units, AMI will continue to adhere to stringent liquidity and yield-oriented fund sales management. A steady level of net sales is to be achieved on the basis of largely stable sales quotas. This will enable funds to exploit opportunities in the property markets adequately. With regard to special funds and individual property funds, we will use our experience as market leader in the retail segment to aim for higher fund volumes. The product concepts launched, WestInvest Target Select and Deka Loan Investments, will be advanced and gain in importance. In Real Estate Lending, AMI's unchanged focus will be on business with property investors, which benefits the business division as a whole. Mortgage collateral will be entered in the land register. The loans will feature a conservative structure and be granted in the core countries for investment fund business. The sub-division's policy will continue unchanged, concentrating on transactions that are eligible for the capital market and at the same time suitable for inclusion in fund solutions or syndication.

Both sub-divisions are expected to make a sustained contribution to the DekaBank Group's economic result. Real Estate Lending will benefit from high-margin new business which has already been acquired. In Asset Management, we assume a

modest rise in assets under management and as a result, measured growth in net commission income.

In the AMI business division, opportunities will arise from the currently undiminished high level of demand for property fund products. This facilitates the establishment of new products launched for private and institutional investors. Our property funds focus on high yields in the long term and continue to represent an attractive alternative to low-interest cash deposits. In addition, we expect conditions for acquiring low-risk but high-yield property finance to remain favourable in 2010 at least.

Risks arise, in particular, from the market environment, which remains challenging and volatile. The high funding requirement coupled with unchanged restraint with regard to lending represents the major challenge for property assets. The resultant pressure in terms of the trend in value and rental income may dampen fund performance, along with ongoing low interest levels on liquid funds. In this event, additional risk provisions may be required in commercial property finance in the future due to the impact on the collateral and cash flow relating to the finance.

### C&M business division

As a result of the above-mentioned strategic key aspects for the close integration of Asset Management and capital market business (see page 2), the Markets sub-division will accelerate expansion of fund-related services. This will enable C&M to develop earnings potential along the DekaBank-specific value-creation chain.

In view of the substantial potential they offer, competences in secured business and repo/lending activities will be strengthened further through targeted investments in 2010.

C&M will adjust business capacity, process security and netting agreements with counterparties in line with the increase in demand from customers. This will result in a rise in sales of derivatives products for the AMK and AMI business divisions as well as the savings banks.

The attractiveness of ETFs for Depot-A (A securities account) investments of the savings banks and other institutional investors facilitates expansion of the relevant activities.

The Credits sub-division will continue its activities as a selective investor in credit products that are eligible for Asset Management.

On the basis of the strategy which has been introduced, the business division will make a strong contribution to the economic result of the Group while limiting the exposure to de-

fault and market risks. This development is supported by the long-term investment of liquidity, which is expected to produce steady income contributions up to 2015.

It remains difficult to predict future capital market developments. There is a possibility that valuation results or the requirement for higher risk provisions will adversely affect earnings.

## Risk report

The structure and content of the risk report below correspond to the risk report published in the Group management report. Risk management and risk control are geared to the Group and encompass all business divisions and legal entities. We have therefore dispensed with preparing a risk report at Bank level.

### Risk-oriented overall bank management

#### Risk policy and strategy

The DekaBank Group's full Board of Management further developed its business strategy, including the consistent risk strategies in the year under review, taking account, among other things, of its sharpened business model. The Bank uses a systematic strategic process to regularly review its business strategy, management and structure, as well as the divisional and sales strategies, and ensure that these are consistent, complete, sustainable and up-to-date. The strategies are transferred to a target system as part of DekaBank's management system. On the basis of this target system, DekaBank achieves an appropriate risk/reward ratio in the long term with the aim of achieving a sustained increase in enterprise value.

The policies defined for all material types of risk are derived from the corporate strategy for the Group and the strategies for the business divisions. Within the framework of these overall strategies, the risk policies provide concrete details regarding risk monitoring and management. They are reviewed at least once a year, adjusted if necessary and discussed with the Administrative Board. In addition, the Administrative Board has established an Audit Committee, which regularly obtains a comprehensive overview of the risk management systems in the DekaBank Group and receives reports of the audit findings from Internal Audit.

Following the realignment of its strategy, DekaBank is more than ever pursuing a business model with strictly limited risks. Risk positions are only entered into if they arise in connection with customer transactions and can be hedged in the market, or if they are accepted in order to release synergies in Asset

Management and are clearly limited by the amount of capital by which they are backed. DekaBank has specified limits for all material risks and has implemented consistent risk management.

An effective risk management and control system is the basis for the professional management and ongoing monitoring of all material risks. With the aid of this system, risks are identified at an early stage, described in detail, evaluated under varying scenarios and managed in line with the risk-bearing capacity of the Group. We are therefore in a position to swiftly take appropriate measures to counter risks in the event of any unwanted developments. The continually revised and updated system also forms the basis for objective and comprehensive risk reporting and all the information required for risk management is provided to the competent departments in a timely manner.

## Organisation of risk management and Control

### Risk management

DekaBank perceives risk management as the active management of the Bank's risk positions (Fig. 8).

The full Board of Management of the DekaBank Group plays a central role here: the Board is responsible for setting up, further developing and monitoring the efficiency of the risk management system. The full Board of Management approves the permissible overall risk at Group level and stipulates what proportion of the reserved risk capital should be attributed to the respective risk types on the one hand and the business divisions on the other hand (top down view). In addition, the business divisions determine their budgeted capital requirement (bottom up view). Combining the two viewpoints ensures the most efficient allocation of the risk capital to the business divisions on an annual basis.

In accordance with the limits prescribed by the Board of Management, the Asset Liability Management Committee (ALMC) specifies the framework for the management of strategic market risk positions. The ALMC includes the managers of the Markets and Treasury sub-divisions in the C&M business division, the managers of the Corporate Centre Risk & Finance as well as the members of the full Board of Management responsible for these units. The Committee also includes a representative each from the Macro Research unit of the AMK business division and from the Compliance unit in the Corporate Centre Legal Affairs. The C&M business division then implements the strategic guidelines independently.

Responsibility for the Group-wide management of credit risks is held by the C&M business division. The Corporate Centre Credit Risk Office assumes the role of administration office for the early identification of credit risks. This office is also responsible for the market-independent second recommendation, preparing and/or approving credit rating analyses and ratings, regularly monitoring credit ratings, checking specific items of collateral, setting up limits for specific borrowers as well as monitoring the transaction management of non-performing and troubled loans.

Fig. 8 Organisational structure of risk management in the DekaBank Group

		Market price risk	Liquidity risk	Credit risk	Operational risks	Business risks	Property risk/ prop-erty fund risk	Shareholding risk
<b>Administrative Board (or Audit Committee)</b>	<ul style="list-style-type: none"> <li>– Overview of current risk situation/ risk management system</li> <li>– Discussion of strategic direction with Board of Management</li> </ul>	●	●	●	●	●	●	●
<b>Board of Management</b>	<ul style="list-style-type: none"> <li>– Determines strategic direction</li> <li>– Responsible for Group-wide risk management system</li> <li>– Sets return on equity target and allocation of risk capital to risk types and business divisions</li> <li>– Sets overall limit and approves limits within risk types</li> </ul>	●	●	●	●	●	●	●
<b>ALMC<sup>1)</sup></b>	<ul style="list-style-type: none"> <li>– Specifies framework for management of strategic market price risk position</li> <li>– Proposes overriding limits</li> </ul>	●	●					
<b>AMK business division</b>	<ul style="list-style-type: none"> <li>– Conducts transactions in line with strategic guidelines</li> </ul>			●		●		
<b>AMI business division</b>	<ul style="list-style-type: none"> <li>– Conducts transactions in line with strategic guidelines</li> </ul>			●		●	●	
<b>C &amp; M business division</b>	<ul style="list-style-type: none"> <li>– Conducts transactions in line with strategic guideline</li> <li>– Decisions within the framework determined by ALMC and specifies limits within Markets/Treasury</li> <li>– Manages Group-wide credit risk</li> </ul>	●	●	●				
<b>Credit Risk Office (Corporate Centre)</b>	<ul style="list-style-type: none"> <li>– Administrative office for early risk identification</li> <li>– Market independent second recommendation</li> <li>– Prepares/approves ratings</li> <li>– Checks certain collateral</li> <li>– Monitors transaction management for non-performing and troubled loans</li> </ul>			●				
<b>Risk Control (Corporate Centre Risk &amp; Finance)</b>	<ul style="list-style-type: none"> <li>– Development/update of system to quantify, analyse and monitor risks</li> <li>– Reports to Board of Management and Administrative Board</li> <li>– Determines/monitors risk-bearing capacity</li> <li>– Monitors approved limits</li> </ul>	●	●	●	●	●	●	●
<b>Equity Investments (Corporate Centre Strategy &amp; Communication)</b>	<ul style="list-style-type: none"> <li>– Manages equity investment portfolio</li> </ul>							●
<b>Compliance (Corporate Centre Legal Affairs)</b>	<ul style="list-style-type: none"> <li>– Monitors compliance with rules of conduct under capital market law and consumer protection in securities business</li> </ul>				●			
<b>Corporate Security Management (Corporate Centre IT/Org)</b>	<ul style="list-style-type: none"> <li>– Ensures IT security and is responsible for business continuity management</li> </ul>				●			
<b>DekaBank Group</b>	<ul style="list-style-type: none"> <li>– Identifies, measures and manages operational risks on a decentralised basis</li> </ul>				●			
<b>Internal Audit (Corporate Centre)</b>	<ul style="list-style-type: none"> <li>– Audits and evaluates all activities/processes (especially risk management system)</li> </ul>	●	●	●	●	●	●	●

1) ALMC = Asset Liability Management Committee (composition: head of Markets, head of Treasury, head of Corporate Centre Risk & Finance, responsible members of Board of Management, Macro Research (AMK) and Compliance (Corporate Centre Legal Affairs))



The respective managers in the Group units are responsible for the operational risks in their units. Details of risk management are given under the different risk types.

### Risk control

In organisational terms, Risk Control is part of the Corporate Centre Risk & Finance and is carried out by the Market & Liquidity Risk, Credit Risk, Desk Controlling Corporates & Markets and Group Risk & Reporting units. These units are independent of the business divisions and are tasked in particular with developing a standard and self-contained system that quantifies and monitors all risks associated with the Group's business activities. The risk measurement procedures are continually updated in line with business and regulatory requirements. Risk Control also monitors compliance with the limits approved by the authorised persons. Limit overruns are notified immediately to the full Board of Management.

Not all risks can be quantified but they are equally important. DekaBank therefore also carries out qualitative controls, which include unquantifiable risks.

### Risk reporting

Each quarter, the Board of Management and Administrative Board receive a risk report in accordance with the MaRisk (Minimum Requirements for Risk Management). The risk report provides a comprehensive overview of the main risk types as well as the risk-bearing capacity. In addition, the Board of Management and the main decision makers receive report extracts with key information on the current risk situation on a daily or at least monthly basis, depending on the type of risk.

### Internal Audit

As a unit which is independent of other processes, Internal Audit supports the Board of Management and other levels of management in their management and supervisory function. It examines and assesses all activities and processes on the basis of an annual audit plan, which has been drawn up in a risk-oriented manner using a scoring model and approved by the Board of Management.

The unit's most important tasks include evaluating the business organisation with a focus on whether the internal control system, and especially the risk management and monitoring system, is appropriate. Internal Audit also reviews compliance with legal, regulatory and internal banking regulations.

### New regulatory provisions

The Federal Financial Supervisory Authority (BaFin) provided more specific details on and extended the MaRisk in the year ended. The amendment to the act, in particular, tightens up the regulatory requirements regarding the management of liquidity risks, the development and implementation of stress tests and adequate awareness of risk concentration. In addition, the new regulations stipulate the requirement of developing a risk strategy for the Group as a whole. In this context, risk-bearing capacity must now be guaranteed for the Group as a whole and no longer only at individual company level.

DekaBank previously already fulfilled key elements of the new requirements. As a result, only minor adjustments were required. Supplements related, for example, to finetuning the stress testing tools.

A further change has resulted from the Accounting Law Modernisation Act (BilMoG), which requires the express presentation of accounting-related risks and also of the internal control system in relation to the accounting process. This is provided as part of the description of operational risks on pages 49 and 50.

In December 2009, BaFin published a circular stipulating new requirements regarding the structure of remuneration systems, which implement the relevant standards of the Financial Stability Board. The overarching aim of the new requirements is to prevent any negative incentives for entering into disproportionate risk positions. DekaBank has launched a specific project to implement the BaFin requirements. The first measures include setting up a remuneration committee and developing a transitional solution regarding bonus payments for financial year 2009. Further information is provided in the section on employees on pages 25 to 27.

## Overall risk position of DekaBank

### Risk types and definitions

DekaBank classifies risks in line with the German Accounting Standard DRS 5-10 and therefore presents its risk position with a breakdown into market price risk, credit risk, liquidity risk and operational risk. In addition, there are further specific risks, which are taken into account when determining Group risk: shareholding risk, property/ property fund risk and business risk.



### Market price risks

Market price risk describes the potential financial loss caused by future market parameter fluctuations. Market price risk comprises interest rate risk (including credit spread risk), currency risk and share price risk with the relevant option risk in each case, as well as the risk associated with price changes in property funds and commodities as the underlying assets of trading products and portfolio items in funds and ETFs.

In line with DekaBank's business strategy, transactions mainly relate to customer transactions (customer business) and a small proportion for the Bank's own portfolio (investment portfolio, liquidity reserve and trading portfolio). In addition, the Bank intends to benefit from short-term fluctuations in market prices by actively entering into positions for its trading book. Overall, this should generate a sustained economic result for the Bank.

Both the strategic positions in the investment book and the more short-term positions in the trading book entail market price risks. These include interest rate risks and share price risks, as well as credit spread risks and to a small extent currency risks and option risk.

### Credit risk

We understand credit risk as the risk that a borrower, issuer or counterparty does not fulfil his contractually agreed services or fulfil them on time and DekaBank incurs a financial loss as a result.

In principle, with regard to credit risk DekaBank distinguishes between position risk and advance performance risk. The position risk comprises the borrower and issuer risk, which is determined particularly by the creditworthiness of the respective contracting partner, as well as replacement risk and open positions. The advance performance risk represents the danger that a business partner does not pay the contractually agreed consideration after advance performance by DekaBank.

Credit risks arise primarily in the C&M business division and to a lesser extent in the AMI and AMK business divisions.

The C&M business division is divided into four sub-divisions comprising Credits, Markets, Exchange Traded Funds and Treasury. The main task of the Credits sub-division relates to building up and managing credit assets in the investment book, which can be made available in the form of funds or other participation formats. The Markets sub-division is the central service provider and innovator for DekaBank's internal and external Asset Management customers. The sub-division's activities essentially comprise services to implement Asset Management decisions, market making for exchange traded funds, managing the securities of investment funds via

repo/lending transactions and services for the Credits sub-division. The issuer and counterparty risks resulting from trading activities in the Markets sub-division relate, in particular, to financial institutions, funds and corporates. The Treasury sub-division pools DekaBank's own investments and is responsible for managing market price risks relating to the investment book and liquidity risks. In Treasury, credit risks arise mainly from asset and liability management.

Further credit risks result from German and international property finance in the AMI business division as well as the guaranteed funds in the AMK business division.

### Operational risk

Operational risk describes possible losses resulting from the use of internal processes and systems that are inappropriate or susceptible to failure as well as human error and external events. This also includes changes to political and legal framework conditions. Where losses occur due to an error by the Bank, other risks frequently arise whose damage potential also has to be taken into account. Examples of such secondary risks include reputation and legal risks.

### Liquidity risk

Liquidity risk is understood as the risk of insolvency as well as the risk resulting from a mismatching of maturities in assets and liabilities. In principle, the Bank distinguishes between insolvency risk and liquidity maturity transformation risk.

Liquidity risk describes the risk of not being able to meet payment obligations on the due date, as well as the financial risk resulting from mismatching maturities in assets and liabilities.

The liquidity maturity transformation risk describes the risk that arises from a change in DekaBank's own refinancing curve in the event of mismatches in the liquidity-related maturity structure. At DekaBank, this risk is monitored using funding ratios. These are primarily used for liquidity and refinancing forecasts.

### Business risk

Business risk is particularly important in Asset Management. It comprises potential financial losses resulting from changes in customer behaviour, competitive conditions or the general economic framework conditions. DekaBank considers all factors material if they unexpectedly impact the earnings trend negatively as a result of volume and margin changes and are not attributable to any of the above risks.

**Shareholding risk**

DekaBank understands shareholding risk as the risk of a potential financial loss from impairment of the portfolio of equity investments where these are not consolidated in the balance sheet and therefore already included under other types of risk.

**Property risk**

The property risk describes the risk of a fall in value of property held in the DekaBank Group's own portfolio.

**Property fund risk**

The property fund risk results from the possibility of an impairment in the value of property fund units held in the Bank's own investment portfolio.

**Risk measurement concepts****Risk-bearing capacity**

DekaBank determines the Group risk across all significant risk types that impact on income and also includes those risks not taken into consideration for regulatory purposes, for example business risk. Group risk is measured as the amount of capital that with a high level of probability will suffice to cover all losses from the main high risk positions within a year at any time.

DekaBank uses the value-at-risk approach (VaR) in order to quantify individual risks on a uniform basis and aggregate them as an indicator for Group risk. The calculation of the VaR with a holding period of one year is carried out for various confidence levels. A confidence level of 99.9% is essential for internal management and external communications. We also use a level of 99.97%.

Group risk is matched by the risk cover potential. If this is consistently higher than the Group risk, that is the utilisation level stands at less than 100%, the risk-bearing capacity of DekaBank is guaranteed at all times. The risk-bearing capacity analysis is carried out monthly and the results are reported to the Board of Management. The Administrative Board is informed on a quarterly basis.

To assess the risk-bearing capacity on a differentiated basis, DekaBank distinguishes between primary and secondary risk cover potential in line with the legal position of the investor. The primary cover potential is essentially composed of the equity in accordance with IFRS and the net income contribution for the year – that is the forecast profit reduced by a safety margin. The secondary cover potential includes hybrid capital type positions; these comprise profit participation capital and subordinated liabilities – each with a remaining matur-

ity of at least one year – as well as typical silent capital contributions.

**Stress tests**

Regular stress tests are also carried out for all key market parameters, in order to assess the impact of extreme market developments. The reason for this is that a value-at-risk model shows the potential loss under largely normal market conditions. In addition, stress tests relate to events that cannot be derived directly from statistical data. These tests analyse market price risk positions (interest rates, share prices and exchange rates), liquidity risk and credit risk positions. Furthermore, stress scenarios covering market developments in relation to credit spread risks are regularly calculated.

In the reporting year, we implemented additional stress tests, also taking into account the updated MaRisk requirements. These comprehensively reflect extreme market situations across the individual risk types. Additionally, stress tests relating to individual risks were developed further.

Stress tests are also used in the calculation of risk-bearing capacity. The additional risk arising in the stress scenario is combined with Group risk and compared to the overall risk-bearing capacity. For financial year 2009, we have shown the utilisation of overall risk-bearing capacity under a stress scenario for the first time.

**Overall risk position in financial year 2009**

At €2,917m as at year-end 2009, Group risk was 11% down on the comparable figure for 2008 (€3,292m). An amount of €2,093m of Group risk was attributable to core business and €824m to non-core business. The primary risk cover potential amounted to €3,748m, which represents a utilisation rate of 77.8%. Compared to the utilisation of 96.4% as at year-end 2008, the utilisation of risk cover potential has significantly decreased.

The overall risk-bearing capacity was guaranteed at all times during the reporting period. However, as a result of the temporary widening of credit spreads, Group risk in the first quarter of 2009 was at times higher than the primary risk cover potential.

In the stress scenario, Group risk at year-end totalled €3,713m. This results in a utilisation rate of overall risk-bearing capacity under a stress scenario of 72.1% (previous year: 82.0%). The figure highlights the fact that the DekaBank Group's risk position has eased up further, even under stress conditions. The overall risk-bearing capacity of €5,152m (previous year: €5,043m) comprises the secondary risk cover potential of €1,404m in addition to the primary risk cover potential. Ex-

cluding the stress scenario, overall risk-bearing capacity was only utilised to 56.6% (previous year: 65.3%).

Credit risk amounted to €1,367m. This represented a decrease of 8% over the full year. Alongside tightening credit spreads, the moderate decrease in the net loan volume impacted on the figure. Compared to the previous year, the portfolio was only expanded as part of liquidity investment (Markets subdivision). We have also fine-tuned our methodology, which had a slight lowering effect on credit value-at-risk (CVaR). Of the credit risk, non-core business accounted for €221m.

With a VaR of €972m, the market price risk, which includes credit spread risks, had fallen below the limit of €1bn again and was 5% down on the previous year's figure of €1,027m. As a result of lower volatility and a slight reduction in interest rate risk positions, traditional market price risks and, in particular, interest rate risks decreased marginally. This effect was reinforced by the integrated calculation of credit spread risks and general market price risks, which has been implemented as part of the new model. Accordingly, diversification effects are recorded in full. Over three quarters of the total figure were attributable to credit spread risks.

Towards the end of 2009, more than half of the VaR relating to market price risk (€543m) was attributable to the portfolio of non-core business.

With a VaR of €383m, the business risk was down on the previous year's figure of €436m, which was adversely affected by market turmoil in the fund business. In scenario calculation, the lower net commission income from securities funds had a significant impact. Nevertheless, the prevailing high business risk reflects current uncertainty in the market, which may affect the cost and earnings trend.

Operational risk with a VaR of €138m was only slightly up on the previous year (€135m). Compared to the figure for year-end 2008 (€45m), the shareholding risk decreased by 18% thanks to lower book values and amounted to €37m as at year-end 2009. Property fund risk fell by 92% compared to the year-end figure for the previous year (€150m) and amounted to only €12m as at 31 December 2009. The decrease resulted from a marked reduction of the portfolio on the one hand and the sharpened methodology on the other. There was no change in the property risk, which contributed to Group risk to a negligible extent (Fig. 9).



## Market price risks

### Risk management and monitoring

DekaBank's market price risk strategy stipulates the parameters for the Bank's trading and all other transactions associated with market price risk. It specifies the policy for the markets in which we operate, regulates responsibilities and the nature and extent of the transactions carried out and also provides regulations for risk management, control and reporting.

The market price risk strategy is viewed holistically in conjunction with the liquidity risk strategy. However, the individual risk components are reported and managed separately. The trading strategy forms an integral part of the market price and liquidity risk strategy.

The ALMC defines the parameters for managing strategic market price risk positions in line with the limits specified by the full Board of Management. In principle, the committee meets twice a month to discuss changes to the limits for the trading portfolios as well as the strategic position and presents these to the full Board of Management for decision-making purposes. Risk monitoring and reporting is carried out by Group Market Risk Control in the Corporate Centre Risk & Finance. This unit is responsible for developing the methodology, quality assurance and validating the processes to quantify market price risks. In the event of limit overruns, Market Risk Control informs the full Board of Management immediately.

To measure and monitor risk positions, all individual positions of the DekaBank Group as at the valuation date are taken into account. The measurement, monitoring and reporting of risk ratios are based on a uniform portfolio hierarchy throughout the Group. This distinguishes in particular between the banking book and trading book. Each transaction is immediately allocated to a portfolio after conclusion of the transaction.

To minimise risks, DekaBank primarily uses established products and markets which usually have sufficient market liquidity and depth as a result of their international acceptance. No transactions in precious metals or commodities were carried out during the reporting year.

Risk positions are limited at portfolio level using risk ratios derived from the VaR process described below. In addition to these risk limits, to effectively limit losses, stop loss limits are defined for trading books in particular. The basis for calculating the utilisation of the stop loss limits is the accumulated net income for the year determined by the Accounting & Performance unit in the Corporate Centre Risk & Finance. If the loss exceeds the stop loss limit, the open positions in the corresponding portfolios are to be closed out immediately.

### Quantifying market price risks

In line with the extent of the interest rate and equity positions as well as the impact of changes in credit spreads on the valuation of capital market credit products, DekaBank gives particular priority to the monitoring of related market risks. The systems to measure and monitor risks are continually refined and further developed.

At the start of the fourth quarter of 2009, we completed the further development of the market price risk model and changed the system and methodology used to measure risk. Previously, risk ratios were determined on a daily basis with the aid of scenario analysis and in accordance with the VaR procedure under the variance-covariance method. However, we now apply sensitivity-based Monte Carlo simulation.

The Monte Carlo approach uses a risk model whose input parameters are the sensitivity variables delta, gamma, vega and theta ("the Greeks"). These first and second-ranking sensitivities express the price sensitivity of financial instruments on the basis of changes and the implicit volatility of the underlying basic value and facilitate the assessment of the overall risk of linear and non-linear products. In addition to quantifying risk, they are also used as management variables, for example to limit risk positions and estimate the risk of new products. Risk management and monitoring are carried out on the basis of the same management variables.

As a result of this switch, DekaBank now achieves a more accurate illustration of all risk factors, which incorporates non-linear and credit spread risks and is also more closely aligned with the trading strategy. Daily risk measurement is integrated for all risk types relating to market price risk, both in the trading and investment book. This guarantees a comprehensive view of all market risks, while adequately taking into account diversification effects by including correlations across all portfolios and risk types.

### Value-at-risk (VaR)

While the VaR in the risk-bearing capacity analysis is calculated with a confidence level of 99.9% and a holding period of one year, to determine utilisation of the operating limits, the VaR is set at a holding period of ten days (for trading one day) and a confidence level of 95.0%. The operating VaR therefore corresponds with a probability of 95.0% to the maximum loss on a position held over a period of one or ten trading days.

Applied since the fourth quarter of 2009, the sensitivity-based Monte Carlo simulation is comprehensively used across all portfolios, including option portfolios and credit spread-sensitive portfolios in particular. The calculation is based on volatilities and correlations determined using historic changes in market parameters. We take into account market correla-

tions within the risk categories of interest rates and credit spreads, currencies and equities as well as correlations between the risk categories.

To calculate the share price risk, each actual share is now included as an individual risk factor and taken into account correspondingly when determining risk. The specific interest rate risks (credit spread risks) are now calculated on an integrated basis using the sensitivities of the underlying creditworthiness-specific spread curves.

The ratios are calculated daily for all risk categories and all portfolios and compared to the associated portfolio-related limits.

Due to the change in the measuring method implemented in the course of the year, the figures established from the fourth quarter onwards can only be compared to a limited extent with the figures reported in previous periods. In addition to the fine-tuning of the method already described above, the limited comparability also results from a clearer distinction between credit spread risk and general interest rate risk.

### Sensitivities

Risk measurement on the basis of the value-at-risk procedure is supported by daily establishing and reporting risk type-specific sensitivities. This method is used to determine the sensitivities for the general interest rate risk, delta as the basis point value and gamma. The basis point value expresses price changes in relation of shifts in yields. The interest rate vega, which is also determined on a daily basis, describes price changes in relation to the implicit volatility of a position. Sensitivities are determined and analysed according to different currency areas and also according to the relevant maturity bands.

In terms of credit spread risk, we also carry out a differentiated analysis according to currency areas and maturity bands, similar to the procedure for the general interest rate risk. Specifically, a breakdown is provided by rating and industry-specific segments. In order to take adequate account of basis risks, a separate analysis is prepared for credit default swap (CDS) and bond markets.

With regard to currency and share price risk, we determine the delta, gamma and vega sensitivities as a change in value based on a 1% change in the underlying risk factors.

### Stress tests

Alongside the analysis of risks as part of the value-at-risk procedure, stress tests are also important for managing and monitoring risk.

In stress tests, we distinguish between sensitivity analysis and stress scenarios.

Sensitivity analyses are defined as simple shifts in the various risk factors relating to changes in interest rates, credit spreads, share prices and exchange rates. As well as the classic parallel shifts, interest rate scenarios include other scenarios such as twisting, tipping or a bend in the yield curve. The sensitivity analyses are used for the operating management of risks from trading and Treasury positions.

Stress scenarios are used to analyse the impact of historic and hypothetical scenarios which affect several risk factors at the same time. In the reporting year, we expanded the scope of stress scenarios to facilitate a more accurate analysis of extreme market situations. To analyse interest rate risk positions, we regularly carry out currency-specific and segment-specific stress tests derived from historic movements in interest rates.

Together with the Macro Research unit, Market Risk Control also analyses the actual impact on earnings based on the Bank's current interest rate expectations and applies the scenarios for interest rate risks in the investment book in line with the regulatory requirements.

In light of the turmoil in the financial markets, the stress scenarios for credit spread risk have continually been developed further. We currently analyse four different stress scenarios. They include scenarios for which the model parameters used were stipulated based on the historic movement in credit spreads for various asset and rating classes during the financial crisis. At the same time, hypothetical scenarios are calculated. The potential loss arising from expected changes in market value in the scenarios is calculated using extreme risk premiums on various capital market credit products against swap rates.

Non-linear risks associated with options in the trading book have been analysed on an integrated basis since the risk methodology was switched in the fourth quarter of 2009. Previously, they were considered separately on the basis of the scenario-matrix procedure.

### Backtesting of VaR ratios

We regularly carry out backtesting for various portfolio levels to test the validity of our VaR forecast. To do this, the daily results theoretically achieved assuming unchanged positions on the basis of the market developments observed on the following day are compared to the forecast value-at-risk figures for the previous day. We use the backtesting results to further develop the risk model. The results are reported quarterly to ALMC by Market Risk Control.

## Reporting of market price risks

Market Risk Control monitors all risk limits and informs the Chairman of the Board of Management, the members of the Board of Management responsible for the divisions concerned and Risk & Finance, the heads of the Risk & Finance, Treasury and Markets units as well as the COO of the C&M division on a daily basis about market risk positions in the trading and investment books and about the trading results as at close of business. A report is submitted to the ALMC every two weeks and to the full Board of Management on a monthly basis. Limit overruns are reported to the full Board of Management immediately. The Administrative Board is informed quarterly.

## Current risk situation

Market price risks in the Group arise in form of interest rate risks (general interest rate risks and credit spread risks), share price risks and currency risks (Fig. 10). The interest rate risk of €96.7m only changed marginally with respect to the previous year (€98.8m). Conversely, at €9.0m and €6.6m respectively, the share price risk and currency risk have increased compared with the previous year (€6.5m and €4.8m).

The interest rate risk and, the credit spread risk in particular, is the most important market price risk by far. After €76.7m at year-end 2008, the credit spread risk amounted to €96.9m at year-end 2009. The rise mainly resulted from the higher market values of capital market credit products in the wake of the general market recovery and the more differentiated distinction between credit spread risk and general interest rate risk. This differentiation led to a shift from general interest rate risk to credit spread risk.

The major proportion of the credit spread risk occurred in the portfolio of structured capital market credit products with €76.2m. The resultant risk position is described in a separate section on pages 54 to 57. The credit spread risk of the investment book (Treasury including capital market credit products) amounted to €89.6m as at 31 December 2009. In the trading book, credit spread risk totalled €16.7m.

**Fig. 10 Value-at-Risk of the DekaBank Group<sup>1)</sup>**  
(Confidence level 95%, holding period 10 days)

€m	31.12.2009		31.12.2008		Change in risk
	Core business	Non-core business	Group	Group	
Interest rate risk	54.3	66.1	96.7	98.8	-2.1%
Interest rate - general	4.2	2.0	4.2		
Spread	54.2	66.2	96.9		
of which in capital market credit business	26.4	65.6	76.2		
Share price risk	9.0	-	9.0	6.5	39.1%
Currency risk	2.0	4.9	6.6	4.8	37.2%

1) Including issuance specific credit spread risk. Excluding credit spread risks on the liabilities side. Due to the switch in the risk calculation methodology on 1 October 2009, the comparability of the year-end figure is limited.

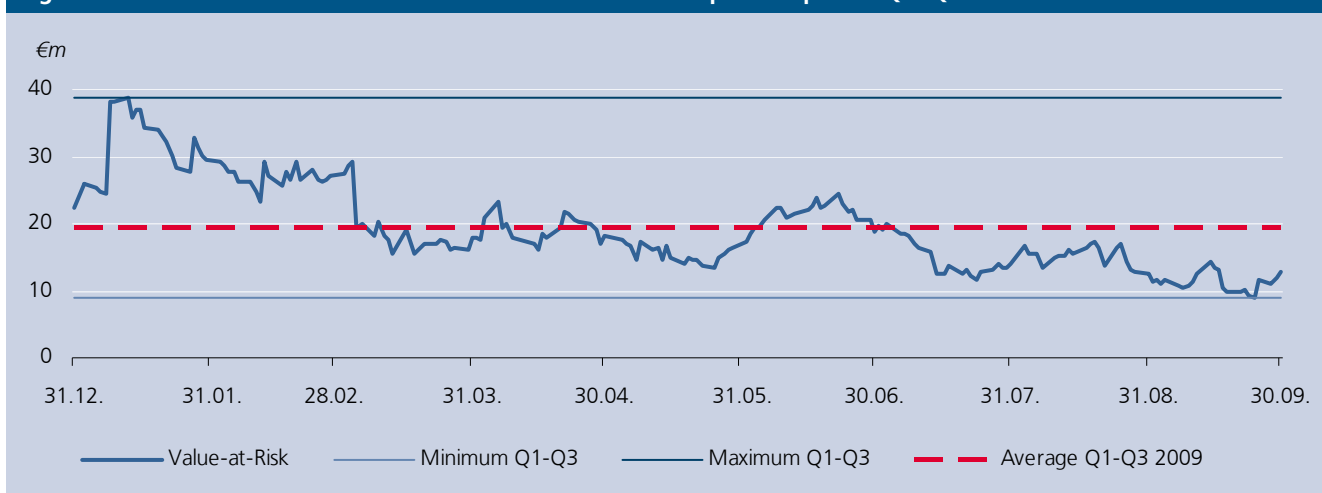


The general interest rate risk of €4.2m largely resulted from euro-denominated positions. As at 31 December 2009, the general interest rate risk in the trading book amounted to €3.9m. In the investment book, the general interest rate risk stood at €1.7m.

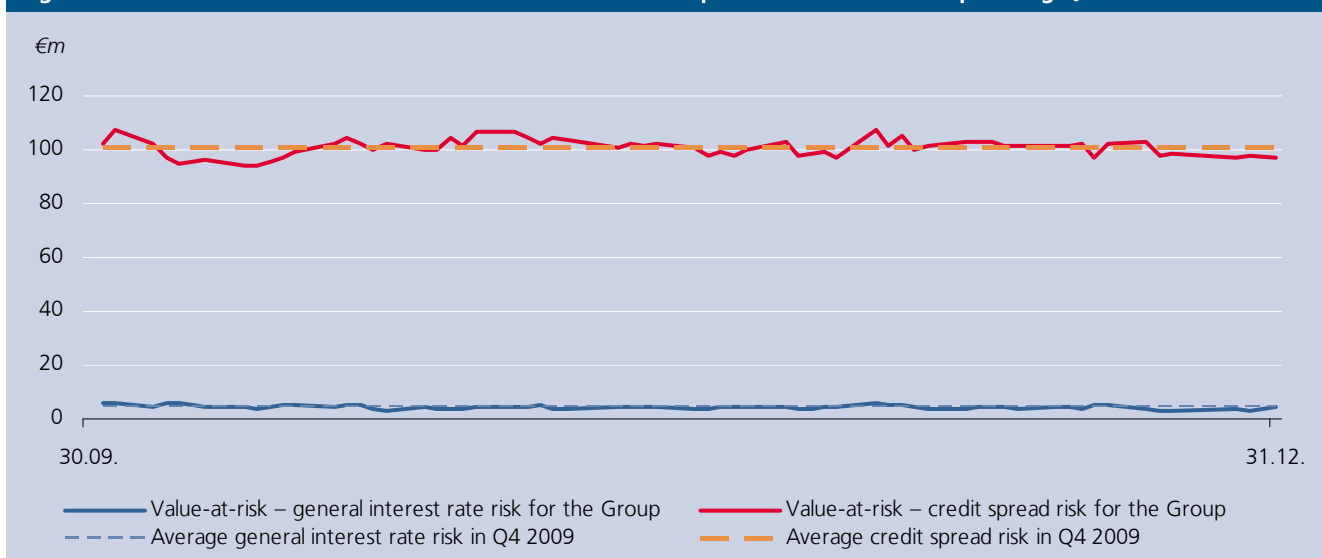
Against the backdrop of the introduction of the new market price risk model on 1 October 2009, we have presented the trend in the value-at-risk over the year separately for the first three quarters (only general interest rate risk); (Fig. 11) and the fourth quarter (general interest rate risk and credit spread risk); (Fig. 12).

The share price risk at year-end 2009 amounted to €9.0m and exceeded the previous year's figure of €6.5m (Fig. 13). The decisive factor here were higher risks in the trading book, attributable in part to linear share price risks and in part to the higher commitment level in terms of lending substitute transactions. These amounted to €7.8m as at 31 December 2009.

**Fig. 11 Value-at-risk – General interest rate risk for the Group in the period Q1- Q3 2009**



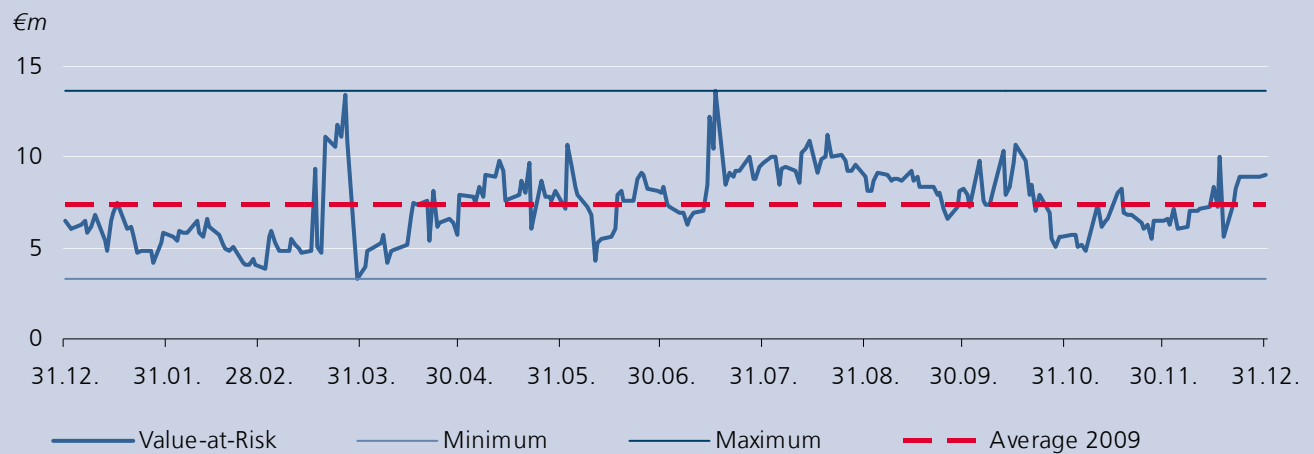
**Fig. 12 Value-at-risk – General interest rate risk and credit spread risk for the Group during Q4 2009**



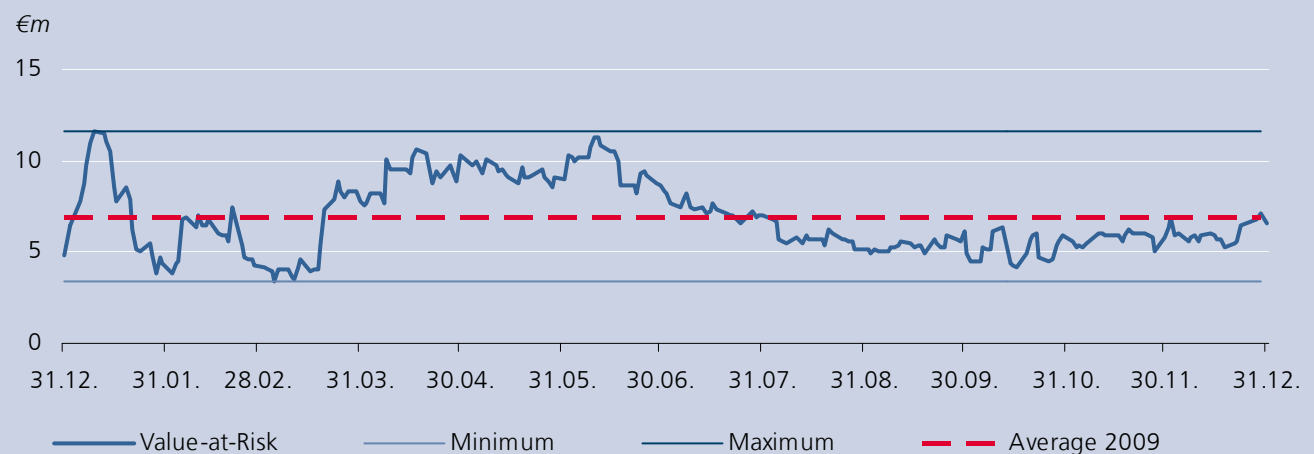
In contrast, the share price risk resulting from start-up financing for mutual securities funds fell considerably. This reflected the decline in volatilities on the one hand and on the other, DekaBank's fundamental strategy to only enter into a low level of risk positions in the equities segment. The share price risk in the investment book amounted to €4.4m.

The currency risk rose from €4.8m in the previous year to €6.6m (Fig. 14). The rise was primarily attributable to a change in the market values of existing securities positions in Treasury. The currency risk in the investment book amounted to €5.8m at year-end 2009 and in the trading book to €1.2m. The main currency positions of DekaBank relate to the US dollar and pound sterling.

**Fig. 13 Value-at-risk – Share price risk for the Group during 2009**



**Fig. 14 Value-at-risk – Currency risk for the Group during 2009**



## Credit risks

### Risk management and monitoring

#### Organisation of credit risk management

The credit risk strategy provides the parameters for the business activities of the DekaBank Group in relation to borrower risks, issuer risks, advance performance risks and replacement risks, and forms the basis for comprehensive credit risk portfolio management. Moreover, the strategy outlines the credit risk principles for loans within the meaning of Section 19 (1) of the German Banking Act (KWG) and describes the segments, which represent the focus of the lending activities, including the specific risk determinants and minimum standards. The credit risk strategy applies to all organisational units in the Group. The strategy is specified by the Board of Management and reviewed at least once a year and discussed with the Administrative Board. The monitoring and management of credit risks is carried out according to standard principles, regardless of whether the risks stem from trading or nontrading transactions. The associated tasks are carried out by the Board of Management, the C&M and AMI divisions, by the Corporate Centre Credit Risk Office as well as the Group Credit Risk Control unit in the Corporate Centre Risk & Finance.

In line with the minimum requirements for risk management (MaRisk), certain tasks in the credit process have to be carried out by departments other than the Front Office. Consequently, the Corporate Centre Credit Risk Office is the administration office for early risk identification and is responsible for market-independent second recommendation for loan decisions as well as for preparing and approving creditworthiness analyses and ratings. In addition, the Corporate Centre Credit Risk Office checks the quality of the credit processes and monitors the transaction management of non-performing and troubled loans as a permanent member of the Monitoring Committee. This committee is responsible for managing and monitoring the transaction management of troubled loans. In addition to the head of the Corporate Centre Credit Risk Office, its members include the heads of the sub-divisions Credits, Markets and Treasury from the C&M division, the head of the Real Estate Lending sub-division in AMI and the head of the Corporate Centre Legal Affairs. The Corporate Centre Credit Risk Office has a right of veto in the Monitoring Committee.

Other back office functions are assumed by the Credit Risk Control unit of the Corporate Centre Risk & Finance. This monitors credit risks at both portfolio and borrower level and is responsible for risk reporting with regard to credit risks. Its remit also includes methodology development, quality assurance and monitoring procedures to identify and quantify credit risk. Acceptances and other decisions regarding the further

development of the rating procedure are the responsibility of the Rating Committee (cf. the section on assessing creditworthiness).

Independent risk assessment and monitoring is guaranteed by the functional and organisational separation of the Credit Risk Office and Credit Risk Control from the C&M division as well as the Real Estate Lending sub-division in AMI.

#### Management, monitoring and limiting of credit risks

DekaBank manages and monitors credit risks at individual transaction and borrower level as well as at portfolio level.

With regard to the economic borrower and, where applicable, the economic borrower unit, DekaBank has set sub-limits for the position risk and advance performance risk as well as a limit for the overall position. The limits are tailored to the borrower's creditworthiness as well as the collateralisation and term of the transactions. Country and sector viewpoints also play a role. Moreover, it is ensured that no individual exposure exceeds an appropriate sum. The Bank does not enter into credit transactions of a highly speculative nature or featuring very unusual risks. In addition, project financing must meet the requirements of the Equator Principles in accordance with the credit risk strategy. External experts are consulted to review and classify projects.

Special risk-limiting standards apply in the Credits subdivision depending on the type of financing. In project financing, for example, care is taken to ensure technical security and appropriate price risk and cost reserves. In public infrastructure finance, the assessment of the property financed and of the operator plays a key role, while country and supplier risks are particularly relevant in ECA-covered export and trade financing.

With regard to non-structured capital market products in core business, especially bonds, swaps, credit default swaps (CDS) and index transactions, we consider aspects such as the expertise and reputation of the parties to the transaction, an analysable market environment for the underlying transaction and also an appropriate credit enhancement.

In the segment of structured capital market products and the segments which were assigned to non-core business, no new commitments are taken on.

In addition to criteria relating to individual transactions, there are product-specific exclusions. In property finance, in the Real Estate Lending sub-division, criteria such as the creditworthiness of the user and/or the parties involved in the project, the location, quality and profitability of the property as well as adequate advance letting for real estate project developments

are of overriding importance. Collateral to minimise credit risks primarily includes guarantees and sureties, charges on commercial and residential property, register pledges and assignment of receivables. In the case of guarantees and sureties, the value carried for the collateral is based on the creditworthiness of the party providing the collateral and in the case of asset collateral, the market or fair value or lending value of the financed property. In principle, the valuation of the collateral is checked annually. In trading business, we minimise credit risk by using offsetting agreements via derivatives and repo transactions. The main types of collateral are cash and securities, especially framework agreements in repo/lending transactions and collateral management agreements.

The procedures used to value and manage the credit collateral are summarised in the Bank's Credit Manual. If collateral is to be newly included as credit risk reducing techniques under the German Solvency Regulation (SolV), this can only take place after implementation and documentation of the preconditions required under the SolV. All relevant units of the Bank are included in this process.

#### Assessing creditworthiness

When assessing the creditworthiness of borrowers, in principle we do not rely on external ratings but use a finely differentiated, internal rating system at Bank and Group level which meets the requirements of the current rules to determine equity backing for financial institutions (Basel II). The system is based on internally determined ratings, which are assigned to estimates of the probability of default (PD).

Our rating system covers classic default risks such as in business transactions with companies, banks and sovereigns and also supplies crystal clear creditworthiness ratings in the field of special and project finance.

The independent credit risk monitoring required to operate the internal rating system is provided by the Corporate Centre Credit Risk Office and the Credit Risk Control unit in the Corporate Centre Risk & Finance.

In addition, as part of a cooperative project, tasks relating to the ongoing updating and further development of as well as the technical operation of the rating modules have been outsourced to a joint venture company between the Landesbanken involved, RSU Rating Service Unit GmbH & Co. KG in Munich. One rating module is looked after in cooperation with the central service provider of the savings banks, S Rating und Risikosysteme GmbH in Berlin.

The competence for internal Bank acceptance or decisions relating to the further development of methodology and updating of the rating systems lies with the Rating Committee, which is made up of representatives from the Corporate Centres Credit Risk Office and Risk & Finance. In addition, the Rating Committee is responsible for the fundamental specification of the rating processes. The first-time introduction of new rating procedures requires the approval of the full Board of Management.

The rating modules currently used are tailored to the relevant class of receivables. These include classic scorecard models through which a creditworthiness assessment is carried out on the basis of current quantitative and qualitative borrower features, as well as modules used to estimate the probability of default in terms of the expected cash flows, using simulated macro and micro scenarios for the relevant risk drivers. One module determines the probability of default using a portfolio approach. In addition to the modules indicated above, expert modules are also used for particular types of financing.

The borrower and country ratings are combined to measure the transfer risk on payment obligations which are denominated in a foreign currency from a debtor viewpoint.

All of the rating modules used are calibrated to a one-year probability of default. The DSGV master scale serves as a standard reference point for a differentiated creditworthiness assessment. This provides for a total of 21 rating classes for non-defaulting borrowers and three for defaulting borrowers.

The three default classes reflect the need to facilitate the recording of default events on a differentiated basis. Regulatory default definitions in relation to Basel II encompass a wide range of default events, including temporary payment problems and insolvency of the borrower.

Each class is allocated a mean probability of default. On the whole, the DSGV master scale facilitates an extraordinarily differentiated measurement and forecast of default risks, which take account of the requirements of DekaBank's market environment. The ratings are updated annually or as required.

## Quantifying credit risks

### Limit monitoring

Counterparty-related credit risks are monitored, in principle, at economic borrower and economic borrower unit level. To this end, the main exposures from lending and trading business count towards the utilisation of the limits for advance performance risk, position risk and overall risk. Off-balance sheet items such as irrevocable lending commitments or guarantees provided are also included. In principle, the market value of the respective transaction is used. Where this is not directly evident in the market, we use the present value or the maximum current or future drawdown.

Issuer risks in the trading book are monitored on the basis of a holding period-related overall limit, unless relevant individual counterparty-related limits exist.

Limit overruns at economic borrower unit level or global limit level are reported to the full Board of Management immediately. Further limits such as rating-dependent country limits, portfolio-related limits under the Investment Directive for Structured Capital Market Investments and limits for value fluctuations of securities collateral in repo/ lending business are monitored.

### Default monitoring

Non-performing items are receivables which meet one of the impairment criteria described in detail in the notes (see note [15]). These also include receivables in default by over 90 days and accounting for more than 2.5% of the overall risk position (Section 125, Solvency Regulation).

The responsibility for monitoring and managing troubled exposure lies with the Monitoring Committee (see also section on organisation of credit risk management). The committee specifies the early warning indicators and classification criteria, monitors exposure categorised as troubled, stipulates the measures required and monitors the effect of these measures.

In order to recognise provisions for loan losses in the balance sheet, the individual loan receivables are checked for impairment. If impairments are identified, specific valuation allowances in the corresponding amount are recognised. For non-impaired receivables, the default risk and transfer risk are taken into account by recognising portfolio valuation allowances. Portfolio valuation allowances for country risks are always recognised from an internal rating of 10 in accordance with the DSGV rating scale. For countries with better ratings, a valuation allowance can be recognised in individual cases. Portfolio valuation allowances for creditworthiness risks are recognised for impairments in the loan portfolio which have

already occurred as at the reporting date but were not yet known. Provisions are recognised to take account of credit-worthiness risks in off-balance sheet lending business.

### Credit portfolio model

In addition to the structural analysis of the credit portfolio, credit risks are illustrated using a portfolio model. This is aimed in particular at providing suitable risk ratios and risk premiums for portfolio and bank management, determining the capital required or economic equity utilisation level relating to credit risks and to integrate these in the riskbearing capacity analysis and quantify concentration and diversification effects.

The portfolio model is based on a credit metrics approach. In addition to the default risks in the narrower sense, the risks arising from a change in creditworthiness are also taken into account in the form of rating migrations. The probability allocation for changes in the value of the portfolio caused by credit risk is generated using a Monte Carlo simulation. A key result of the portfolio model is that it determines a CVaR with a confidence level of 99.9% and an assumed holding period of one year. The CVaR is currently determined each month Group-wide and incorporated in the processes and reports relevant to the management of credit risks.

### Credit risk reporting

In addition to monitoring limits on a daily basis, Credit Risk Control prepares a summary report each month containing the main explanations and any partial limit overruns during the reporting month.

Moreover, Credit Risk Control prepares a credit risk report as at the end of each quarter, showing DekaBank's credit portfolio for the whole Group by segment in accordance with the definition under Section 19 (1) of the German Banking Act (KWG). This report includes a comprehensive structural analysis of the credit portfolio, an analysis of the limits and their utilisation as well as an overview of collateral. Other elements of the report include risk ratios from the credit portfolio model, concentration analyses, a presentation of rating-related changes in the form of a migration analysis as well as noteworthy exposure and activities in new markets and products. The report also provides information about loans on the watchlist, the provisions for loan losses and, if applicable, major limit overruns.

The credit risk report is prepared as at the end of every quarter and submitted to the Board of Management and in abbreviated form to the Administrative Board.

### Current risk situation

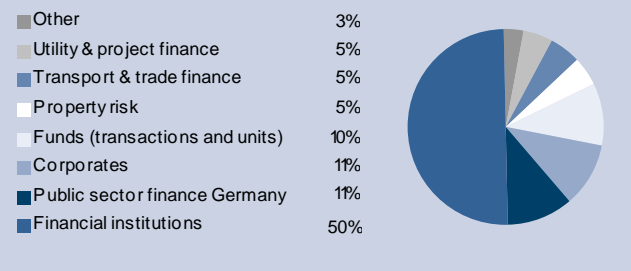
As a result of our restraint in new business and the selected reduction of positions in non-core business, the gross loan volume fell to €147.0bn in the reporting year (end 2008: €151.4bn). Of this, €138.9bn were attributable to core and €8.1bn to non-core business.

The major proportion of the decrease related to the risk segment financial institutions. Lower bond and loan portfolios and overdrafts were the main reason for the gross loan volume amounting to only €74.2bn at year-end 2009 (end 2008: €83.6bn). The opposite effect of higher derivatives positions was therefore more than compensated.

The share of this risk segment in the overall loan volume reduced from 55.2% to 50.4%.

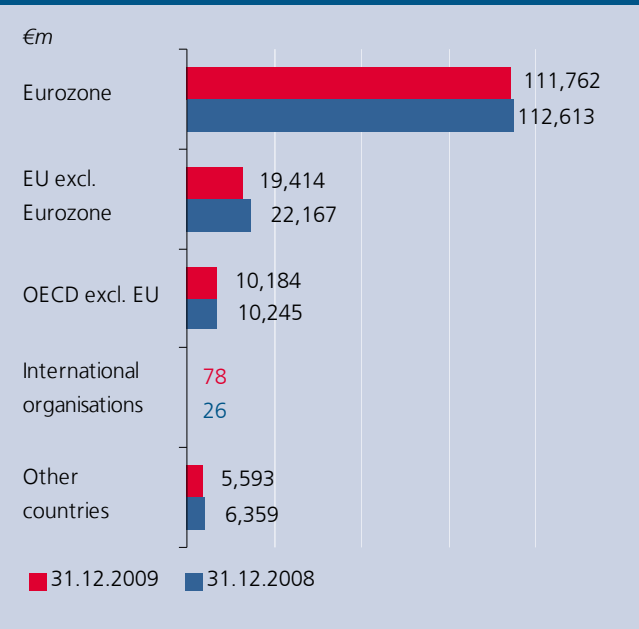
In the corporates risk segment, the decline in the gross loan volume by 12.5% to €15.2bn (previous year: €17.4bn) was mainly attributable to the reduction in synthetic lending positions in the Markets sub-division. A rise of €4.6bn to €16.1bn was recorded in public sector finance in Germany. Short-term financing at federal state level was expanded in particular, while the volume of long-term loans decreased. The gross loan volume in the funds risk segment was up 30.2% on the previous year and resulted primarily from the conclusion of derivatives and money transactions with funds (Fig. 15).

**Fig. 15 Gross loan volume**



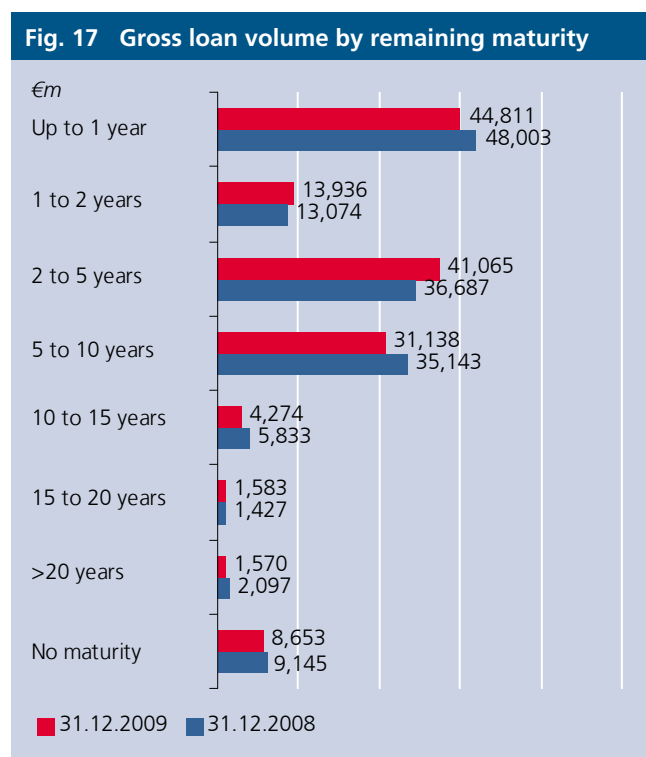
In terms of regional distribution, the shift in the gross loan volume was gradual in the year under review. The eurozone continued to dominate, with this region accounting for €111.8m, or 76.0% (previous year: 74.4%), of the overall volume. Of this, approximately three quarters were granted to borrowers in Germany, as in the previous year. The share of EU countries outside the eurozone persisted at a relatively low level of 13.2%. OECD countries outside the EU accounted for only 6.9% of the gross loan volume (Fig. 16). Countries with a rating between 6 and 15 on the DSGV master scale are monitored using a global country limit. At the year-end, 20.0% (previous year: 15.8%) of this limit had been utilised.

**Fig. 16 Gross loan volume by region**





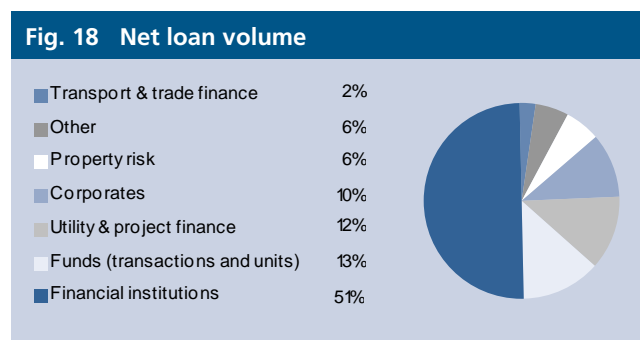
The average remaining maturity of the gross loan volume decreased slightly from 3.8 years to 3.4 years during financial year 2009. One important reason for this development was our restraint in new business, as a result of which the average maturity in the existing portfolio was down (Fig. 17).



As at the 2009 reporting date, €86.1bn, or 58.5%, of the gross loan volume was collateralised. The guarantor's liability was still the most important form of collateral and is attributable to loans granted within the *Sparkassen-Finanzgruppe*. Risk reduction relating to claims on the public sector and off-setting agreements (especially netting) on financial futures were also increasingly important. Conversely, collateralisation on the basis of reverse repo netting was down on the previous year. The consistently high proportion of business based on the guarantor's liability and claims on the public sector reflects DekaBank's business structure, which is largely dominated by the savings banks and Landesbanken as well as public sector budgets.

At €61.0bn, the remaining net loan volume was 11.1% down on the previous year's figure (€68.5bn). With regard to risk segments, financial institutions also constituted by far the most important segment in terms of the net loan volume. They were followed by funds and the utility & project finance risk segment, which mainly comprises transactions in non-core business. It accounted for a total of €7.3bn, or 12.0%, of the net loan volume. As a result of some loan terms coming to an end

and the selected reduction in business, the net loan volume of non-core business fell by €1.3bn during the reporting year (Fig. 18).



The concentration in the portfolio rose somewhat in the year under review. The ten biggest borrowers accounted for a share of 26.1% (previous year: 24.4%) of the net loan volume as at the 2009 reporting date. At the same time, 10% of borrower units accounted for 78% of the net loan volume. In terms of regional distribution, the eurozone dominated the net loan volume as well. However, the share of borrowers from EU countries outside the eurozone rose from 11.9% to 14.4% in the course of the year.

The borrower ratings changed only slightly on average compared to the previous year. With regard to the net loan volume, the average rating is 4 based on the DSGV master scale (previous year: 3).

For 86.7% of the net loan volume the rating class was unchanged. At year-end 2009, 88.7% of the net loan volume (previous year: 83.4%) had a DSGV rating of 4 or better. This high average value is essentially attributable to the high proportion of financial institutions, which had an average rating of A+ as in the previous year (Fig. 19).

The decrease in the CVaR (confidence level 99.9%, risk horizon of one year) from €1.49bn to €1.37bn resulted primarily from a reduction in the net loan volume and the more sophisticated valuation methodology. In the course of the year, the CVaR fluctuated in a range of €1.20bn to €1.63bn. At year-end 2009, 37.3% of the CVaR was attributable to financial services providers. In terms of the regional distribution, the picture remained virtually unchanged on the previous year with loans granted to German counterparties accounting for 44.7% of the CVaR and 38.0% relating to borrowers in other Western European countries.

Fig. 19 Net loan volume by risk segment and rating

€m	Avg PD in bps	Avg rating 31.12.09	31.12.2009	31.12.2008
Financial institutions	5	A+	30,868	34,980
Corporates	29	4	6,327	7,495
Public sector finance international	4	AA-	1,690	3,349
Public sector finance Germany	1	AAA	211	498
Public infrastructure	46	5	840	984
Transport & trade finance	121	8	1,514	2,113
Utility & project finance	61	6	7,297	4,708
Property risk	61	6	3,638	4,081
Retail portfolio	2	AA+	720	918
Funds (transactions/units)	10	A-	7,770	9,291
Equity investments	56	6	79	107
<b>Total result</b>	<b>22</b>	<b>4</b>	<b>60,953</b>	<b>68,526</b>

Of the provisions for loan losses reported in the balance sheet totalling €669.1m (previous year: €360.5m), €554.1m (previous year: €274.3m) related to specific valuation allowances for loans and securities, €20.7m (previous year: €24.2m) to portfolio valuation allowances for country risks, €74.1m (previous year: €48.0m) to portfolio valuation allowances for creditworthiness risks and provisions for portfolio risks, and €20.2m (previous year: €14.0m) to provisions for specific valuation allowances in off-balance sheet lending.

The allocation of provisions for loan losses and securities to the segments are shown in Fig. 20:

As collateral for the impaired individual exposures, in the financial institutions risk segment securities were taken into account, as were charges on property in the property risk segment, while aircraft mortgages and sureties were included for the transport & trade finance risk segment. Sureties were taken into account when determining portfolio valuation allowances for country risks. Portfolio valuation allowances for creditworthiness risks were determined taking collateral of sustainable value into account. In the past financial year, collateral utilised totalled €0.7m (previous year: €1.5m).

Fig. 20 Provision for loan losses by risk segment

€m	Financial insti- tutions	Funds	Transport & trade finance	Utility & project finance	Property risk	Public infra- structure	Equity invest- ments	Corpo- rates	Other	31.12. 2009	31.12. 2008	31.12. 2007
Impaired gross loan volume 1)	538.7	0.0	243.1	198.5	234.5	0.0	0.0	0.0	0.0	1,214.8	811.0	171.5
Collateral at fair value	48.1	0.0	179.3	0.0	74.6	0.0	0.0	0.0	0.0	302.0	292.3	83.8
Impaired net loan volume 1)	490.6	0.0	63.8	198.5	159.9	0.0	0.0	0.0	0.0	912.8	518.7	87.7
Provisions for loan losses 2)	380.8	0.4	59.4	114.2	108.0	2.6	3.0	0.5	0.2	669.1	360.5	130.7
Specific valuation allowances	378.6	0.0	17.5	72.9	85.1	0.0	0.0	0.0	0.0	554.1	274.3	35.3
Provisions	0.0	0.0	6.1	5.7	5.4	0.0	3.0	0.0	0.0	20.2	14.0	12.2
Portfolio valuation allowances for country risks	0.0	0.0	19.9	0.8	0.0	0.0	0.0	0.0	0.0	20.7	24.2	20.0
Portfolio valuation allowances for creditworthiness risks	2.2	0.4	15.9	34.8	17.5	2.6	0.0	0.5	0.2	74.1	48.0	63.2

1) Gross and net loan volumes impaired by specific and country valuation allowances

2) Provisions for loan losses in balance sheet exceed the net loan volume as portfolio valuation allowances have been recognised.

## Operational risks

### Risk management and monitoring

Operational risks (OR) naturally depend heavily on the type of business activity and unlike market price and credit risks, are therefore process-specific. As part of its OR strategy, DekaBank therefore adopts a decentralised approach to identifying and assessing operational risks as well as to loss documentation. The heads of the respective Group units are responsible for managing operational risks in their divisions. This includes the obligation to systematically indicate latent risks and damages above a defined minor limit. This reporting obligation is monitored by the Group Operational Risk Control unit and Internal Audit.

The Group Operational Risk Control unit has the decisionmaking authority with regard to methodology applied to operational risks in terms of the standardisation and appropriateness of the terms defined Group-wide, the methods and procedures used as well as for the regular reporting to the Board of Management and supervisory bodies. In addition, Group Operational Risk Control is responsible for implementing statutory and regulatory requirements relating to operational risk management.

Through the comparison with existing risk cover funds, DekaBank ensures that it can bear operational risks. On this basis, these risks are incorporated in the equity management of DekaBank, through which the divisions are provided with the corresponding capital to achieve their strategic goals and profit targets. The information gathered on a decentralised basis is aggregated by Group Operational Risk Control and reported to the heads of the operating units and the Board of Management. The risk assessments and loss notifications are validated and plausibility-checked. At the same time, it is ensured that risk assessments and loss notifications were carried out in accordance with standard procedure.

In addition to the methods which are directly included in the calculation of the value-at-risk relating to operational risks, a number of other cross-divisional functions at DekaBank play an important role in identifying, assessing and managing such risks.

### Business continuity management

DekaBank relies on a Group-wide framework as well as organisational and technical regulations to ensure a standard approach throughout the Group in the event of a disaster. Business continuity management directly deals with various problems using appropriate centralised and decentralised organisational measures in a defined escalation procedure. Depending on the extent and severity of the failures, these are

reported directly to the crisis management team which includes the Group Board of Management. Defined recovery teams comprising employees from the various specialist departments are in place for the emergency operation of critical business processes and restoring normal business operations. These teams restore the business processes interrupted by the disaster and ensure that business operations continue as smoothly as possible.

### Premises-related failure or loss

To ensure against premises-related failure or loss, DekaBank pursues an internal recovery strategy both in and outside Germany by using its own buildings and infrastructures. In terms of Germany, this means for example that the two locations Frankfurt-City and Frankfurt-Niederrad serve as a back-up for each other. This ensures that the specialist divisions concerned have all the information and resources they need at their emergency workstations to facilitate emergency business operations.

### IT failure or loss

A series of organisational and technical regulations and measures ensures that the failed IT systems can be restored promptly. Extensive, practical tests are regularly carried out to check that the measures are taking action and leading to the desired outcome.

### Compliance

The DekaBank Group has a separate Compliance unit, which ensures the stability, effectiveness and independence of the compliance function. The unit is headed by the Compliance and Anti Money Laundering Officer. Its responsibilities comprise the prevention of money laundering, insider and market manipulation dealings, and fraud and corruption. In addition, the unit ensures the Bank's compliance with duties and requirements under securities trading legislation as well as with financial sanctions and embargos. The Compliance Officer submits a report to the Board of Management and Administrative Board at least once a year and is also the contact for supervisory authorities and other government offices.

Compliance is a key element of the corporate strategy and contributes at operational level to the implementation of values and risk management in the business units through own specific guidelines and processes.

The DekaBank Group's compliance concept provides rules for the Group as a whole which, taking into account country-specific interests, are aimed at uniformly protecting customer interests and effectively countering conflicts of interest that may arise as a result of the different levels of information for customers and employees of DekaBank.

### Accounting-related internal control and risk management system

In principle, risks arise as part of the accounting process, including

- through non-uniform use of posting and reporting Standards
- as a result of incorrect reporting of business transactions
- due to system errors of the IT used in accounting.

DekaBank's internal control system ensures proper and efficient accounting. Its key features are consistent process integration of control procedures, in particular on the basis of the dual control principle, as well as risk-oriented division of responsibilities in head office units. To this end, automated routine checks are used and – when required – manual control and coordination procedures whose implementation and functionality are documented in specialist and implementation concepts.

On an aggregated level (for example with regard to individual balance sheet items), additional checks are carried out by sub-position officers. These employees are also responsible for regularly calculating results and they have in-depth product knowledge. The dual control principle applies here too and is delivered by an employee with supervisory responsibilities.

The Group guideline governs the reporting of business transactions on a centralised basis. The guideline describes key accounting facts and documents the uniform specialist procedure applicable throughout the Group. This ensures that the same business transaction is reported uniformly by different Group units and companies in compliance with the applicable accounting standards. Specific work instructions implement the Group guideline at operational level in the individual specialist departments concerned. These instructions also provide a description of the control mechanisms to be considered. Guiding principles and authorisation concepts have been developed for the central systems which generate accounting information as part of the presentation of the financial statements. Compliance with these is regularly checked by Internal Audit and the external auditors.

We mainly use standard software for our accounting. The systems are protected against unauthorised access by external parties and comprehensively secured against data loss.

The internal control system is regularly tested by the auditors as part of the audit of the consolidated financial statements.

### Quantifying operational risks

DekaBank has a comprehensive management and control system for operational risks. The methods used are Groupwide loss documentation and decentralised self assessment and scenario analysis. In addition, the relevant factors for the general economic environment and internal controls are recorded. These are used, in particular, to update and validate self assessment and scenario analysis. Based on the data generated by these methods and using an advanced quantification model recognised by the Federal Financial Supervisory Authority (BaFin), we determine the operational risk as a value-at-risk ratio which is relevant in both internal management as well as external reporting.

#### Self assessment

In the process-based self assessment method, the operational risks throughout the Group are identified and assessed on a decentralised basis by experienced employees (assessors) for their own reporting unit in the form of detailed, regular and structured loss scenarios. To measure the risk, the amount and frequency of losses are assessed and aggregated to form a loss potential. Self assessment is aimed particularly at the implementation of a consistent and Group-wide risk inventory which can be used by the heads of the Group units to derive and prioritise action plans for reducing operational risks.

#### Scenario analysis

Scenario analyses were expanded and intensified in the reporting year and are used for detailed examination and assessment of severe losses arising from operational risks, whose effects potentially affect several Group units and cannot therefore be adequately covered by the self assessment process. The entire range of operational risks can be recorded and systematically assessed by combining the two methods.

As with self assessment, scenario analysis is conducted by process and system experts to analyse future operational risks. They identify the main risk drivers in a loss scenario and vary the severity of such drivers, allowing the impact of different scenarios to be assessed. The scenario analysis delivers a comprehensive loss illustration, in particular the range of potential losses including consideration of extreme stress.

Scenario analysis is not just used to quantify risks. We also use it to derive measures to limit operational risks and recommend courses of action in the event of a scenario occurring.

### Loss documentation

At DekaBank, all losses incurred throughout the Group from operational risks above the minimum limit of €5,000 are recorded and analysed in a central loss database. This also includes measures to reduce and avoid future losses and an examination of the action required.

By comparing the losses occurred with the results of the self assessment and scenario analysis, we not only validate our risk quantification methods but also derive assumptions regarding the distribution of amounts involved and the frequency of losses, which in turn form the main basis for the use of quantitative models to determine the equity requirement.

In addition, DekaBank participates in the external loss consortium of the *Bundesverband Investment und Asset Management e.V. (BVI)* and the GOLD consortium of the British Bankers Association (BBA). The external loss data is used both directly in quantification and indirectly as a source of ideas for self assessment and scenario analysis.

### Reporting of operational risks

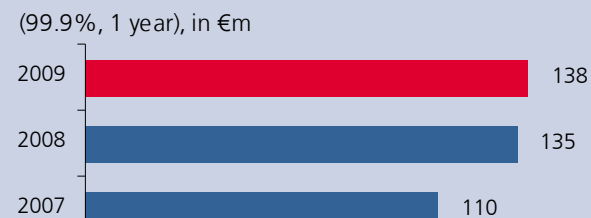
The quarterly risk report informs the heads of the Group units about all the key operational risks, thereby facilitating effective management. In addition, an aggregate report is submitted to the Board of Management on a quarterly basis. Alongside summary information on the operational risks in the Group, this includes detailed information on the measures taken or planned regarding major individual risks in the Group units. Moreover, the value-at-risk ratio is incorporated in the analysis of the Group's risk-bearing capacity.

Reporting obligations apply to losses that have occurred; these are graded in accordance with the loss involved and ensure that the Board of Management and Internal Audit are informed in a timely manner.

### Current risk situation

The value-at-risk determined in accordance with the advanced measurement approach for operational risks (confidence level 99.9%, risk horizon of one year) increased slightly by 2.1% to €138m within a year (Fig. 21). The figure moved within the €125m to €141m range. However, comparability is limited following the implementation of a sharpened measuring methodology in the course of the year. The 49 internal losses reported resulted in a total loss of €3.2m, which was significantly down on the comparable figure for the previous year of approximately €20m – of which around €15m were attributable to provisions for potential losses.

**Fig. 21 Operational risk**



The potential losses from operational risks determined as part of the risk inventory (ex-ante assessment) rose over the course of the year by 16% to €62.1m (previous year: €53.6m). This assessment reflects the higher potential losses, especially in the AMI and C&M business divisions.

### Liquidity risks

#### Risk management and monitoring

DekaBank's liquidity risk is managed and monitored as an independent risk type. The market and liquidity risk strategy applies to all organisational units in the Group. The strategy is determined by the Board of Management and reviewed annually and discussed with the Administrative Board. Any necessary adjustments are carried out under the lead management of the Corporate Centre Risk & Finance.

In principle, liquidity risk is managed on a cross-portfolio and Group-wide basis. All product types are included. The central aims are to avoid liquidity bottlenecks at Group level and ensure solvency at all times as well as to generate positive profit contributions from liquidity management. The planning, measurement and monitoring of liquidity is based on the liquidity status, funding matrices, stress scenarios and liquidity key ratios in accordance with the Liquidity Directive (Section 11, German Banking Act, KWG). As liquidity risk is not a direct income risk that can be cushioned with equity, we do not include it in the risk-bearing capacity analysis.

## Quantifying liquidity risk

### Liquidity status

The current liquidity status of the DekaBank Group is determined on a daily basis by the Short Term Products unit (STP) in the Markets sub-division and is used by this unit to manage liquidity on a day-to-day basis.

### Funding matrices

In addition, the liquidity position is analysed and monitored by Market Risk Control in the Corporate Centre Risk & Finance. To this end, the following funding matrices amongst others are drawn up and reported: normal business operations – Group, intended holding period – Group, legal maturities – Group, downgrade – Group, fund crisis – Group and banking crisis – Group.

The purpose of the funding matrices is to show the undiscounted future expected cash flows across the portfolio as at the reporting date, on the basis of which the liquidity requirement or surplus (liquidity gap) is determined per maturity band. The accumulated liquidity gap is also shown.

The cash flows in line with the legal maturities form the basis of all funding matrices.

As part of the relevant scenario statement of the various funding matrices, modelling and renewal assumptions are made to illustrate the cash flows on certain product types (e.g. securities and deposits eligible as collateral for the ECB and eligible for repo transactions). The sum total of the cash flows produces a liquidity gap in each maturity band. In addition to this, the liquidity potential is calculated which takes into account freely available funds, for example assets which can be readily converted into liquid funds such as securities, free surpluses in cover registers, which can be used, and other funding sources.

The sum of the accumulated liquidity gap and accumulated liquidity potential produces the liquidity balance used as the basis for management.

The intended holding period – Group funding matrix has been the lead funding matrix in the DekaBank Group since the third quarter of 2009. Unlike the normal business operations funding matrix relevant to management to date, it is based on the strategic investment horizon of securities in the IAS categories held to maturity (htm) and loans and receivables (lar) as well as transactions with an intended long holding period rather than on convertibility into cash and eligibility for refinancing. Compared with the normal business operations funding matrix, lower liquidity balances are reported where the matrix is based on the intended holding period. To that extent, the new funding matrix represents a more prudent approach. In September

2009, extended early warning and traffic light system limits were introduced for the new funding matrix.

As part of managing the liquidity position, the funding matrices are used on a daily basis in the Funding & Liquidity unit in the Markets sub-division. Their application includes the strategic management of DekaBank's issuance activities in the money and capital markets as well as strategic asset allocation.

### Stress scenarios

Through stress scenarios carried out every two weeks or each quarter, we investigate the influence of various scenarios on the liquidity position. We divide the underlying models into idiosyncratic and market-related scenarios. Idiosyncratic scenarios affect DekaBank directly (e.g. potential downgrading of securities or of DekaBank's creditworthiness by rating agencies). Market scenarios include, for example, the funds and banking crisis. Depending on the stress scenario, various modelling and renewal assumptions are made and a different volume assumed for the additional financing requirement.

### Liquidity ratio under the Liquidity Directive

DekaBank liquidity risk mitigation measures are also guided by the liquidity requirements of the Liquidity Directive (Section 11, German Banking Act, KWG). The liquidity ratio pursuant to the Liquidity Directive is calculated as the ratio of short-term cash inflows and outflows of DekaBank with a maturity of up to one month. Monitoring ratios for up to one year are also calculated. Potential payment obligations, e.g. in relation to credit line commitments or deposits, are included in the individual maturity bands and weighted according to their drawdown probability (call-off risk) in accordance with the regulatory weighting factors. In line with regulatory requirements, certain product types are not included, such as derivatives.



## Reporting the liquidity risk

The above-mentioned funding matrices used for management and risk monitoring purposes are prepared at least every two weeks by Market Risk Control as part of independent monitoring. They include a qualitative assessment of the liquidity situation by the Funding & Liquidity unit and are submitted to the full Board of Management, the ALMC and the heads of the Markets and Risk & Finance units. In this regard, early warning limits and traffic light system limits were defined in relation to the liquidity balance (= accumulated liquidity gap plus accumulated liquidity potential), which are also monitored by Market Risk Control. Any overruns are reported to the Board of Management via the ALMC.

Moreover, the liquidity ratio pursuant to the Liquidity Directive is monitored daily in the reporting system of the Corporate Centre Risk & Finance.

Since year-end 2009, all of the stress tests have been based on the intended holding period – Group funding matrix (previously based on the normal business operations funding matrix). In the wake of the financial market crisis, the banking crisis funding matrix was additionally applied to manage and monitor the liquidity position during the reporting year and was also used on a daily basis.

## Current risk situation

The DekaBank Group's liquidity situation remains comfortable. As a result of the high level of liquid securities, most of which are eligible as collateral for central bank borrowings, and the surplus cover in the cover pool, as well as the corresponding repurchase agreements, DekaBank has extensive potential liquidity that can be made liquid at short notice. Investment of

some of the surplus liquidity impacted favourably on the results in the year under review, and these liquidity investments will also produce income in subsequent years.

The comfortable liquidity situation means that DekaBank will also have sufficient investment opportunities in the future while always complying with early warning and traffic light system limits.

As at 31 December 2009, the accumulated liquidity balance based on the intended holding period – Group funding matrix in the maturity band of up to one month amounted to €13.5bn. In the maturity band of up to six months, the surplus totalled €7.5bn, and over a twelvemonth period €9.6bn. Up to a maturity band of 20 years, the liquidity balances were consistently positive. At the same time, the liquidity structure analysis highlights the broad diversification of refinancing by investor and product groups (Fig. 22).

DekaBank's liquidity position remains very strong even under stress conditions. All three stress scenarios showed marked liquidity surpluses in the short maturity band of up to one month.

The regulatory requirements of the Liquidity Directive were again clearly surpassed at all times in financial year 2009. The liquidity ratio of the first maturity band determined on a daily basis stood between 1.38 and 1.92. The figure at the close of the year amounted to 1.67 (end 2008: 1.43), with an average of 1.66 for the year.

**Fig. 22 Normal business operations funding matrix of DekaBank as at 31 December 2009**

€m	<=1M	>1M-12M	>12M-7Y	>7Y-30Y	>30Y	Total
Securities, loans and promissory note loans <sup>1)</sup>	11,100	20,287	46,543	10,229	51	88,210
Other money market transactions (lending) <sup>2)</sup>	16,783	3,751	2,541	0	131	23,205
Derivatives <sup>3)</sup>	-1,954	-5,715	-4,584	-123	0	-12,376
Refinancing funds <sup>4)</sup>	-26,658	-11,246	-46,641	-5,511	-5,078	-95,134
Other balance sheet items <sup>5)</sup>	0	-119	-75	-11	-3,790	-3,994
<b>Liquidity balance (acc. gap + acc. liquidity potential)</b>	<b>13,500</b>	<b>9,618</b>	<b>3,118</b>	<b>7,272</b>	<b>-1,414</b>	
1) Including irrevocable lending commitments and guarantees	4) Including in particular short term products, own certificates and funding					
2) Of which approx. €8bn collateralised repo transactions	5) Including silent capital contributions and equity					
3) Including synthetic lending substitute transactions						

## Other risks

### Business risk

In accordance with the varying importance of the business risks for the individual business activities, different methods are used to quantify and manage risk:

For Asset Management activities, the main risk factors are the assets under management and the level of commission. The volatility of these risk factors is simulated by asset class, that is for equities, bonds and property, using comparison indices. Parallel to this, a self assessment of the material business risks is carried out for Asset Management activities using scenarios. This allows the business divisions to counter the main identified business risks with risk-reducing measures.

For all activities outside Asset Management, especially in the C&M division, the business risk is included at the general amount usual for the benchmark in the sector.

The VaR relating to business risk decreased compared to the previous year's figure (€436m) to €383m. However, this remains a high level. It reflects the continuing significant uncertainties in the market, which may impact on the cost and income trend, especially in Asset Management. The reduction compared with the 2008 year-end figure was mainly due to a downturn in net commission income from securities funds. The comprehensive risk for activities outside Asset Management was also down. Non-core business accounted for €58m, or 15%, of VaR.

### Shareholding risk

The shareholding strategy forms part of the credit risk strategy. Equity investments include all direct and indirect holdings of the DekaBank Group in other companies, regardless of their legal form. Equity investments held as credit substitute transactions do not come under the shareholding strategy. In principle, DekaBank does not pursue any trading interests when taking an equity interest.

The basis for determining the shareholding risk position is the respective IFRS book value of the equity investment. The risk is measured on the basis of the volatility of a benchmark index in the equity market.

Compared to year-end 2008, the shareholding risk decreased slightly by €8m to €37m. This was essentially attributable to a decline in equity investments due to book value adjustments, with a minor increase in volatility.

### Property risk

The property risk is measured on the basis of the IFRS book values of the property held in the Bank's portfolio and the volatilities in relative changes in value of the property in the respective location. With a VaR of €8m, the property risk was of secondary importance as in the previous year (€8m).

### Property fund risk

The property fund risk results above all from the units of the Deka-ImmobilienEuropa fund (formerly Deka-ImmobilienFonds) held in the Bank's own portfolio and to a lesser extent from start-up finance.

The property fund risk decreased considerably in the reporting year to €12m (end 2008: €150m). Alongside the fine-tuned risk methodology, this development resulted from fund units returned, which the Bank has held in its portfolio since 2005 (Deka-ImmobilienFonds).

### Capital market credit products

In the past financial year, we divided the portfolio of capital market credit products into core and non-core business in line with our sharpened business model.

Transactions coming under core business were assigned to the Treasury sub-division. They essentially comprise singlename and index CDS transactions, corporate bonds and two transactions as part of long-term liquidity investment. The net nominal value totalled €8.4bn as at the reporting date.

The positions in non-core business amount to a total net nominal value of €2.9bn. They include all asset-backed securities (ABS), commercial mortgage-backed securities (CMBS), residential mortgage-backed securities (RMBS), credit loan obligations (CLO), synthetic CDOs (index and bespoke), structured finance collateralised debt obligations (SFCD0) and constant proportion portfolio insurance (CPPI).

The portfolios of capital market credit products are fully integrated into DekaBank's risk management, described in the preceding sections. The volume of non-core business will be reduced over the coming years through both active management and the scheduled expiry of transactions. We will not enter into new transactions. In the reporting year, several structured positions with lower ratings were sold or redeemed while others expired. Overall, the volume of non-core business decreased by €413m.

## Management, monitoring and limiting

As with all other credit transactions, the Corporate Centre Credit Risk Office assumes the role of administration office for early risk identification. This office is also responsible for the market-independent second recommendation and the monitoring of transactions at individual transaction level. In line with DekaBank's current Group-wide credit risk strategy, limit monitoring is carried out independently and on a daily basis by Risk Control using the cross-product Investment Directive for Credit Derivatives, which fully applies to all of DekaBank's capital market credit products and alternative investments in non-core business. Any limit overruns are notified immediately to the full Board of Management.

The limit system described above is flanked by productspecific minimum criteria and product-specific exclusion criteria.

## Approach and valuation

In view of the prevailing market disruption, we switched a large proportion of capital market credit products from market-to-market valuation to mark-to-model valuation based on a modified discounted cash flow model in September 2008. This reduced the influence of irrational fluctuations in liquidity spreads on DekaBank's earnings.

In financial year 2009, all bond positions were switched back in full to market-oriented valuation, since a functioning market can be assumed again in this segment. The fair values for non-synthetic securitisation transactions with a nominal volume of €1.5bn are still determined using the modified discounted cash flow model. Where the observable prices or price indications for individual transactions were deemed to be valid, these values were applied or used to check the plausibility of model-based fair values. The fair value of synthetic securitisation transactions is determined using Copula models, which were calibrated to the market prices of liquid tranches.

## Rating overview

Overall, the ratings in the portfolio of core business (Treasury) are good. In non-core business, CLO tranches were most affected by selective downgrades. However, excluding the relatively limited volume of bespoke CSO positions, the ratings of the majority of non-core business transactions are also good.

The rating overview shows the external ratings on a conservative basis, to the effect that where several external ratings are available for a transaction, the overview shows the lowest rating (Fig. 23).

**Fig. 23 Structured credit capital market products by rating class (nominal in €m)**

Product		AAA	AA	A	BBB	Non-investment		Total
						grade	unrated	
Structured	ABS	193.1	37.4	87.6	43.8	13.5	0.0	375.4
	RMBS	327.2	162.2	134.6	10.0	0.0	0.0	633.9
	CMBS	295.9	152.5	107.2	91.7	3.6	0.0	650.9
	CLO	72.5	421.5	202.9	62.4	49.9	0.0	809.2
	CSO <sup>1)</sup>	0.0	0.0	0.0	0.0	305.0	319.4	624.4
	Structured finance CDO	20.0	10.0	0.0	0.0	0.0	0.0	30.0
	Balance sheet lending	0.0	990.0	0.0	0.0	0.0	0.0	990.0
Alternative	CPPI	0.0	0.0	100.0	0.0	0.0	0.0	100.0
<b>Total</b>		<b>908.6</b>	<b>1,773.6</b>	<b>632.3</b>	<b>208.0</b>	<b>372.0</b>	<b>319.4</b>	<b>4,213.9</b>

1) The CSO index tranches in the portfolio are shown as unrated under CSO. This includes two iTraxx series 7 (tranche 6-9, maturity 7 years) protection seller positions totalling €150m (nominal value), two protection buyer positions on the CDX series 8 (tranche 7-10, maturity 10 years) totalling USD 100m (nominal value) as well as protection buyer positions on the iTraxx series 7 (tranche 6-9, maturity 10 years) amounting to €100m.

## Country overview

In terms of countries, non-core business continues to focus on Western Europe and in particular on German and pan-European structures. With regard to CMBS, a substantial volume is held via UK securitisation transactions, which corresponds to the general distribution of European CMBS securitisation. The only important positions outside Europe are CLO and CSO securitisation transactions. (Fig. 24)

Core business is also concentrated in Western Europe. As at the 2009 reporting date, almost half of the bond positions were attributable to the financial sector.

## IFRS categorisation

The major portion of the portfolio of structured capital market credit products is allocated to the IFRS category at-fair-value (Fig. 25). Accordingly, any changes in value are directly reported in the income statement. Since the portfolio comprises CSOs in CLN form (funded) as well as in CDS form (unfunded), the two portfolios are presented separately to avoid distortion of the fair value results. The figures reflect that the sharp decrease in the subordination levels for CSO/CLN positions is included in full in the income statement. No actual defaults have occurred in the tranches to date. To establish the book values of assets in the at-fair-value (afv) category, models and indicative prices from pricing service agencies were used. The book values of loans and receivables positions (lar) are determined on the basis of amortised cost. No specific valuation allowance was required for any of these positions as part of an impairment test. With regard to afv positions, nominal and interest defaults amounted to €0.5m.

**Fig. 24 Structured capital market credit products by risk country (nominal value in €m)**

Product	Structured						Alternative	Total	
	ABS	RMBS	CMBS	CLO	CSO <sup>1)</sup>	Structured finance CDO			Balance sheet lending
Germany	182	32	171	47	0	0	594	0	1,026
UK	14	152	284	17	0	0	0	0	466
Spain	8	121	0	0	0	0	0	0	129
Italy	54	151	13	0	0	0	0	0	218
Benelux	8	114	172	0	0	0	0	0	293
Scandinavia	45	0	12	22	0	0	0	0	79
Rest of Europe	26	64	0	315	250	20	396	0	1,071
USA	39	0	0	198	324	10	0	50	622
Other/global	0	0	0	210	50	0	0	50	310
<b>Total</b>	<b>375</b>	<b>634</b>	<b>651</b>	<b>809</b>	<b>624</b>	<b>30</b>	<b>990</b>	<b>100</b>	<b>4,214</b>

1) Gross nominal value shown (sum of protection seller and protection buyer positions)

Fig. 25 IFRS valuation categories and book values (in €m)

Product		Nominal	Book value	IFRS valuation category	
				afs	LaR
<b>Structured</b>	ABS	375.4	306.3	229.9	76.4
	RMBS	633.9	523.3	476.0	47.3
	CMBS	650.9	532.9	358.5	174.4
	CLO	809.2	669.6	622.6	47.0
	CSO CLN	205.0	42.2	42.2	0.0
	Structured finance CDO	30.0	12.0	12.0	0.0
	Balance sheet lending <sup>1)</sup>	990.0	989.8	989.8	0.0
	<b>Alternative</b>	CPPI	100.0	99.3	99.3
<b>Total</b>		<b>3,794.4</b>	<b>3,175.4</b>	<b>2,830.3</b>	<b>345.1</b>
<b>Structured</b>	CSO CDS <sup>2)</sup>	419.4	-70.0	-70.0	-

1) Balance sheet lending is assigned to core businesses  
2) Gross nominal value shown (sum of protection seller and protection buyer positions)

### Maturity profile

The average maturity of the overall bond portfolio was 5.7 years at year-end 2009 and in the held-to-maturity category 7.5 years. CDS had a maturity of 5.2 years for the secured party. Transactions as part of liquidity investment will expire in approximately 6 years and CPPI positions in 5.5 or 7.5 years. Securitised products have no fixed maturity period.

### Current risk situation

The credit spread risk of all capital market credit products in the at-fair-value category totalled €76.2m as at the 2009 reporting date (confidence level 95%, holding period ten days). This represents a slight increase on the previous year's figure of €73.1m. The VaR in the Treasury portfolio was €26.4m and that in non-core business came to €65.6m.

# Annual financial statements

## Balance sheet

As at 31 December 2009

Assets				
	€	€	€	31.12.2008 €'000
<b>1. Cash reserves</b>				
a) Cash on hand		29,099.52		68
b) Balances with central banks		247,744,104.12		1,390,000
of which:				
with Deutsche Bundesbank	247,744,104.12 Euro		247,773,203.64	(1,390,000)
<b>2. Due from banks</b>				
a) due on demand		6,122,174,590.76		8,448,982
b) other claims		37,154,381,061.33	43,276,555,652.09	42,828,132
<b>3. Due from customers</b>			22,540,579,264.00	28,196,124
of which:				
secured by mortgages	304,156,354.87 Euro			(358,611)
Public sector loans	6,111,687,865.33 Euro			(7,601,614)
<b>4. Bonds and other fixed-interest securities</b>				
a) Money market securities				
aa) from public sector issuers		1,673,183,401.71		901,268
of which:				
eligible as collateral with Deutsche Bundesbank	1,673,183,401.71 Euro			(901,268)
ab) from other issuers		1,148,855,411.91	2,822,038,813.62	1,604,815
of which:				
eligible as collateral with Deutsche Bundesbank	1,138,271,089.36 Euro			(1,552,485)
b) Bonds and debt securities				
ba) from public sector issuers		7,132,484,204.52		6,290,275
of which:				
eligible as collateral with Deutsche Bundesbank	7,012,763,282.57 Euro			(5,490,233)
bb) from other issuers		26,195,800,747.99	33,328,284,952.51	27,786,259
of which:				
eligible as collateral with Deutsche Bundesbank	21,315,630,358.33 Euro			(22,568,031)
c) own bonds		2,155,859,911.17	38,306,183,677.30	2,368,582
Nominal amount	2,198,112,594.00 Euro			(2,433,375)
<b>5. Shares and other non fixed-interest securities</b>			10,729,616,851.47	10,290,462
<b>6. Equity investments</b>			70,757,594.64	96,582
of which:				
in banks	2,789,404.99 Euro			(2,789)
<b>7. Shares in affiliated companies</b>			372,363,915.28	408,113
of which:				
in banks	69,175,333.01 Euro			(69,175)
in financial services providers	11,687,450.00 Euro			(11,687)
<b>8. Trust assets</b>			167,618,795.45	72,042
<b>9. Intangible assets</b>			8,210,880.00	9,776
<b>10. Tangible assets</b>			23,339,013.37	25,220
<b>11. Other assets</b>			14,183,693,499.52	11,327,105
<b>12. Prepaid expenses and accrued income</b>			137,302,089.87	168,805
<b>Total assets</b>			130,063,994,436.63	142,212,610



## Liabilities

	€	€	€	31.12.2008 €'000
<b>1. Due to banks</b>				
a) due on demand	4,043,275,409.38			6,411,378
b) with agreed maturity or period of notice	28,144,644,464.21		32,187,919,873.59	35,062,866
<b>2. Due to customers</b>				
Other liabilities				
a) due on demand	4,007,074,820.70			16,248,438
b) with agreed maturity or period of notice	15,805,587,523.24		19,812,662,343.94	19,637,829
<b>3. Securitised liabilities</b>				
a) bonds issued	35,742,070,926.55			39,712,508
b) other securitised liabilities	6,363,930,258.89		42,106,001,185.44	501,296
<b>4. Trust liabilities</b>			167,618,795.45	72,042
<b>5. Other liabilities</b>			30,166,190,717.55	19,257,259
<b>6. Accruals and deferred income</b>			97,716,859.95	120,062
<b>7. Provisions</b>				
a) provisions for pensions and similar obligations	241,347,633.88			232,552
b) provisions for taxes	120,061,101.14			93,162
c) other provisions	629,865,456.57		991,274,191.59	754,309
<b>8. Subordinated liabilities</b>			1,052,257,527.26	975,440
<b>9. Profit participation capital</b>			78,000,000.00	153,000
of which:				
due in less than two years	0.00 Euro			(0)
<b>10. Fund for general banking risks</b>			1,971,924,966.00	1,553,685
<b>11. Equity</b>				
a) Subscribed capital				
aa) subscribed capital	286,323,453.46			286,323
ab) silent capital contributions	808,006,397.62	1,094,329,851.08		808,006
b) Capital reserves		189,366,198.03		189,366
c) Retained earnings				
ca) reserves required by the Bank's statutes	51,283,598.27			51,284
cb) other retained earnings	68,815,983.13	120,099,581.40		63,173
d) Accumulated profit		28,632,345.35	1,432,427,975.86	28,632
<b>Total liabilities</b>			130,063,994,436.63	142,212,610
<b>1. Contingent liabilities</b>				
Liabilities from guarantees and warranty agreements			3,237,211,583.82	3,129,509
<b>2. Other liabilities</b>				
Irrevocable lending commitments			2,834,572,744.35	4,986,298

## Income statement

For the period from 1 January to 31 December 2009

Expenses and income				2009	2008
	€	€	€	€	€'000
<b>1. Interest income from</b>					
a) Lending and money market transactions	3,370,098,321.57				4,596,081
b) Fixed-income securities and debt register claims	1,283,639,752.55	4,653,738,074.12			1,370,103
<b>2. Interest expenses</b>		3,850,805,947.40		802,932,126.72	5,838,940
<b>3. Current income from</b>					
a) Shares and other non fixed-interest securities		238,772,681.83			782,900
b) Equity investments		2,675,095.75			3,097
c) Shares in affiliated companies		130,466,988.05		371,914,765.63	515,451
<b>4. Income from profit pooling, profit transfer and partial profit transfer agreements</b>				111,254,745.37	100,789
<b>5. Commission income</b>		780,326,994.00			1,062,455
<b>6. Commission expenses</b>		599,558,114.33		180,768,879.67	777,044
<b>7. Net profit from financial transactions</b>				-303,640,106.42	19,520
<b>8. Other operating income</b>				298,024,413.39	293,562
<b>9. General administrative expenses</b>					
a) Personnel expenses					
aa) Wages and salaries	231,529,194.06				187,998
ab) Social security contributions and expenses for pensions and other employee benefits of which:	45,483,120.81	277,012,314.87			44,625
for retirement pensions	21,765,014.35				(23,175)
b) Other administrative expenses		319,598,138.92		596,610,453.79	382,857
<b>10. Write-downs and valuation allowances on intangible assets and tangible assets</b>				6,771,208.02	9,802
<b>11. Other operating expenses</b>				83,483,371.26	64,903
<b>12. Write-downs and valuation allowances on claims and certain securities and allocations to provisions for loan losses</b>				134,811,062.52	919,140
<b>13. Allocations to the fund for general banking risks</b>				418,240,317.27	397,329
<b>14. Write-downs and valuation allowances on equity investments, shares in affiliates and securities held as fixed assets</b>				66,869,433.79	24,052
<b>15. Expenses due to assumption of losses</b>				17,445,072.23	3,648
<b>16. Profit or loss on ordinary activities</b>				137,023,905.48	93,620
<b>17. Income taxes</b>				16,448,107.36	-15,885
<b>18. Income transferred under profit pooling, profit transfer or partial profit transfer agreements</b>				86,300,296.16	80,119
<b>19. Net income</b>				34,275,501.96	29,386
<b>20. Transfers to retained earnings</b>					
a) to other retained earnings				5,643,156.61	754
<b>21. Accumulated profit</b>				28,632,345.35	28,632

# Notes

## General information

### [1] Preparation of the annual financial statements

The annual financial statements of DekaBank Deutsche Girozentrale for the year ended 31 December 2009 have been prepared in accordance with the provisions of the German Commercial Code (HGB) and the Regulation on Accounting Principles Relating to Financial Institutions and Financial Services Institutions (RechKredV).

### [2] Accounting and valuation methods

#### General information

The accounting and valuation of assets, liabilities and pending transactions was carried out in accordance with Sections 252 ff. and Sections 340 ff. HGB. Write-ups were carried out in line with the requirement to reinstate original values in accordance with Section 280 (1) HGB.

Amounts due from banks and customers are reported at face value. Differences between face value and amounts payable or acquisition costs were recognised under prepaid expenses and accrued income and written back as scheduled.

Liabilities are stated at the face value due. Differences between the amount received and the amount repayable were reported in accruals and deferred income and written back as scheduled.

Securities lending transactions were reported in accordance with the principles of Section 340b (2) HGB applicable for genuine repurchase agreements as of financial year 2009, whereby lent securities continue to be shown under "Bonds and other fixed interest securities". Borrowed securities are not reported in the balance sheet.

#### Valuation of securities portfolios and derivatives

Securities in the trading portfolio and the liquidity reserve are valued strictly in accordance with the lower of cost or market principle, whereby the stock exchange or market price or fair value is decisive.

The fair value of financial instruments is determined on the basis of market prices or observable market data as at the reporting date and recognised valuation models. Where securities and derivatives with sufficient liquidity are traded on active markets, and stock market prices are accordingly available, or prices that can be traded by active market participants are provided, these prices are used to determine the fair value.

Valuation models, which are deemed to be appropriate for the respective financial instruments, are used where no prices are available from an active market. 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 assessments by the management in the valuation. The management also selects suitable modelling techniques, appropriate parameters and assumptions. 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 probably value the financial instrument.

Where unlisted, derivatives are measured using accepted models. Fair values for foreign exchange future contracts are determined on the basis of the future rates as at the reporting date. The fair value of credit default swaps is determined using standard valuation procedures (e.g. hazard rate and Copula models).

In principle, balance sheet transactions and derivative financial instruments in the trading book were valued individually on the reporting date. The method used to determine the net result from financial transactions was a risk-adjusted market valuation, which was carried out for the individual portfolios in the trading portfolio. Using this method, in addition to the realisation principle and imparity principle under the German Commercial Code, realisable (unrealisable) gains are also recognised in income. To take account of the principle of caution under the German Commercial Code, a risk mark-down in the form of the value-at-risk (VaR discount) is applied to the market values; this mark-down equates to the sum most probably sufficient to offset potential losses in the defined period.

In principle, claims and commitments arising from interest-based derivative financial instruments not allocated to the trading book were not valued if they actually served to hedge against market price risks. Moreover, macro valuation units were formed from interest-bearing securities in the liquidity reserve and derivatives were entered into to hedge against interest rate risks. The financial instruments in these valuation units were valued individually and valuation gains offset against valuation losses. Valuation losses remaining after this offsetting were expensed as provisions or amortisation, while valuation reserves were not recognised. All other derivative financial instruments not used to hedge against market price risks were valued. For unrealised valuation losses, provisions were recognised for possible losses from pending transactions. Unrealised valuation gains were not recognised as income.

### Fixed assets

Equity investments, shares in affiliated companies and tangible assets are stated at their acquisition or production cost less any scheduled amortisation or depreciation. Where a loss of value is expected to be permanent, the asset is written down to its lower fair value. Economic assets within the meaning of Section 6 (2a) of the Income Tax Act (EStG) are written off over a period of five years in accordance with tax regulations.

In connection with the company pension plan, restricted securities and securities portfolios intended to be kept long term and for use in business operations on a permanent basis, were treated as fixed assets and valued according to the diluted lower of cost or market principle.

### Currency translation

Assets and liabilities in foreign currency as well as claims and commitments from foreign exchange transactions were translated and valued according to the regulations contained in Section 340h HGB. The results from the translation of hedged balance sheet items were offset by means of equalisation items. Swap premiums were accrued on a pro rata basis. Provisions were recognised for residual valuation losses per currency; residual valuation gains were not recognised as income.

### Provisions for loan losses

Identified default risks in the lending business as well as country risks were adequately provided for by recognising specific valuation allowances and provisions for loan losses. There are sufficient general valuation allowances to cover unforeseen credit risks. Specific and general valuation allowances have been deducted from the respective asset items.

Loan receivables are checked individually for impairment. If impairments are found, specific valuation allowances or provisions are recognised in the corresponding amount. In the case of receivables for which there are no specific valuation allowances, the default risk is taken into account by recognising general valuation allowances.

If there is doubt regarding the recoverability of a receivable, this is taken into account through the recognition of provisions for loan losses. If it is highly probable that further payments will not be paid, the receivable is classified as irrecoverable. An irrecoverable receivable which has already been impaired is written off utilising the provision for loan losses. If there is no specific valuation allowance, the receivable is written off directly and charged to income. Direct write-downs are also carried out if the Bank waives parts of a non-impaired receivable or sells a receivable and the purchase price is below the book value of the receivable.

Specific valuation allowances are recognised to take account of acute default risks if it is likely that not all contractually agreed payments of interest and principal can be made. Potential impairments are assumed in the event of the following:

- Default in payment lasting more than 90 days;
- Delay or waiver of payment obligations;

- Initiation of enforcement measures;
- Imminent insolvency or overindebtedness;
- Petition for commencement or insolvency proceedings;
- Failure of reorganisation measures.

### Provisions

Pension provisions were determined on the basis of an expert opinion using the internationally recognised projected unit credit method based on the Heubeck reference tables 2005 G.

Pension contributions to the fund-based company pension plan were invested in fund units and term life assurance. If the price of the fund units exceeds the contractually agreed minimum benefit when pension payments begin, the beneficiaries are entitled to the higher price of the underlying fund units and if applicable, the benefits under the term life assurance.

Pension provisions for the fund-based company pension plan result from the highest amount reported for the corresponding fund units and the present value of the pension commitments based on an expert actuarial opinion.

Furthermore, employees of the DekaBank Group have the option of paying into working hours accounts. The provisions for the working hours accounts are derived from the book value of the underlying investment fund units on which the assets are based, with a minimum, however, equal to the amount of the contributions paid and guaranteed under the Act to Improve General Conditions to Ensure Flexible Work Time Regulations (Flexi II Act).

Provisions for taxes and other provisions were recognised in the amounts required under reasonable commercial judgement.

### [3] Statement of subsidiaries and equity investments in accordance with Section 285 No. 11 HGB

Name, location	Equity interest in %	Equity <sup>1)</sup> €'000	Result <sup>2)</sup> €'000
<b>Shares in affiliated companies</b>			
DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg	100.0	277,260.2	261,185.0
Deka Investment GmbH, Frankfurt/Main	100.0	60,225.9	78,141.4 <sup>3)</sup>
WestInvest Gesellschaft für Investmentfonds mbH, Düsseldorf	99.7	11,000.0	7,856.2 <sup>3)</sup>
Deka International (Ireland) Ltd., Dublin	100.0	10,680.5	4,337.6
Deka(Swiss) Privatbank AG, Zurich	80.0	35,884.8	5,228.3
DekaFundMaster Investment GmbH, Frankfurt/Main	100.0	16,171.3	-11,479.6 <sup>3)</sup>
Deka Grundstücksverwaltungsgesellschaft I (GbR), Frankfurt/Main	100.0	28,104.0	9,481.3
Deka Immobilien Investment GmbH, Frankfurt/Main	100.0	30,225.9	26,107.1 <sup>3)</sup>
WIV GmbH & Co. Beteiligungs KG, Mainz	94.9	13,006.6	906.6
Deutsche Landesbankenzentrale AG, Berlin	100.0	1,431.1	53.0
Deka Beteiligungsgesellschaft mbH, Frankfurt/Main	100.0	949.2	647.6
LBG Leasing Beteiligungs-GmbH, Frankfurt/Main	100.0	32.4	0.1
Deka Treuhand GmbH, Frankfurt/Main	100.0	57.8	7.7
Deka Vorratsgesellschaft 01 mbH, Frankfurt/Main	100.0	25.0	-0.1 <sup>3)</sup>
Deka Vorratsgesellschaft 02 mbH, Frankfurt/Main	100.0	25.0	-0.1 <sup>3)</sup>
ETFlab Investment GmbH, Munich	100.0	10,008.2	-4,733.2 <sup>3)</sup>
Deka Vermögensverwaltungs GmbH, Frankfurt/Main	100.0	65.4	-28.5 <sup>3)</sup>
WIV Verwaltungs GmbH, Frankfurt/Main	94.9	50.8	7.3
Deka Verwaltungs GmbH, Frankfurt/Main	100.0	23.0	-4.6
STIER Immobilien AG, Frankfurt/Main	100.0	49.8	-0.1
Deka Immobilien GmbH, Frankfurt/Main	100.0	10,485.0	-19,798.3
Deka Real Estate Lending k.k., Tokyo	100.0	3,472.2	-491.6
DKC Deka Kommunal Consult GmbH, Düsseldorf	100.0	203.2	-1,203.4 <sup>3)</sup>
DekaBank Advisory Limited, London	100.0	65.8	18.5
Deka Investors Investmentaktiengesellschaft, Frankfurt/Main	100.0	301.5	1,5



Name, location	Equity interest in %	Equity <sup>1)</sup> €'000	Result <sup>2)</sup> €'000
<b>Equity investments</b>			
Deka-Neuburger Institut für wirtschaftsmathematische Beratung GmbH, Frankfurt/Main	50.0	30.2	2.8
Global Format GmbH & Co. KG, Munich	20.0	1,518.5	-668.3
Sparkassen-PensionsManagement GmbH, Cologne	50.0	119,345.1	-1,938.2
S Broker AG & Co. KG, Wiesbaden	30.6	29,979.2	-8,888.0
Dealys Fund Operations GmbH, Frankfurt/Main	49.9	100.1	0.1
<b>Indirect equity investments</b>			
Deka International S.A., Luxembourg	100.0	120,907.9	93,810.3
Datogon S.A., Luxembourg	100,0	35.8	3.3
International Fund Management S.A., Luxembourg	100,0	19,567.3	47,534.9
Europäisches Kommunalinstitut S.A.R.L., Luxembourg	100.0	15.6	0.1
Deka Immobilien k.k., Tokyo	100.0	509.3	7.0
Deka Immobilien Luxembourg S.A., Luxembourg	100.0	126.3	-6.1
S-Broker Management AG, Wiesbaden	30.6	412.7	3.9
Deka Immobilien Beteiligungsgesellschaft mbH, Frankfurt/Main	100.0	95.4	6.0
Sparkassen Pensionsfonds AG, Cologne	50.0	9,015.5	-1,115.7
Sparkassen Pensionskasse AG, Cologne	50.0	62,716.8	1,522.7
Deka-WestLB Asset Management Luxembourg S.A., Luxembourg	51.0	1,045.4	42.0
Perfeus S.A., Luxembourg	100,0	39.1	1.9
Roturo S.A., Luxembourg	100.0	3,035.6	11.2
Sparkassen PensionsBeratung GmbH, Cologne	50,0	100.0	—
Heubeck AG, Cologne	25.0	4,660.7	492.7
Compendata Gesellschaft zur Verwaltung von Vorsorgeeinrichtungen mbh, Cologne	25.0	94.4	24.6
Heubeck Richttafeln GmbH, Cologne	25.0	102.9	54.7
Richttafeln-Unterstützungskasse GmbH, Cologne	25.0	67.2	3.2
Dr. Heubeck Ges. mbH, Vienna	25.0	21.4	1.4
Dealys Fund Operations S.A., Luxembourg	52.4	118.5	-6.5
Deka Multi Asset Investors Luxembourg, Luxembourg	100.0	31.0	—
Deka Loan Investors Luxembourg I, Luxembourg	100.0	31.0	—
Deka Loan Investors Luxembourg II, Luxembourg	100.0	31.0	—
Deka Loan Investors Luxembourg III, Luxembourg	100,0	31.0	—

1) Definition of equity according to Section 266 (3 A.) in conjunction with Section 272 HGB

2) Net profit/net loss in accordance with Section 275 (2) No. 20 HGB

3) A profit transfer agreement has been concluded with these companies

## Off-balance sheet contingent liabilities

### [4] Letter of comfort

Except in the case of political risk, DekaBank will ensure that the subsidiary included in the consolidated financial statements, DekaBank Deutsche Girozentrale Luxembourg S.A., can meet its commitments.

### [5] Other financial commitments

There are contribution commitments amounting to €0m with regard to companies in which the Bank has invested (previous year: €3m).

There is an obligation to put up additional capital amounting to €21m for Liquiditäts-Konsortialbank GmbH, Frankfurt/Main (previous year: €21m).

There is an obligation to put up additional capital amounting to €4m for Deka-S-PropertyFund No.1 Beteiligungs GmbH & Co. KG, Frankfurt/Main as well as an additional capital amount of €5m for HELICON Verwaltungsgesellschaft mbH & Co. Immobilien KG, Pullach.

There is an additional funding obligation for the security reserve of the *Landesbanken* and central savings banks of €108m.

## Notes to the balance sheet

### [6] Due from banks

	2009 €m	2008 €m
<b>This item includes:</b>		
<b>Loans to</b>		
affiliated companies	33	621
companies in which an interest is held	4,978	2,104
<b>Subordinated loans</b>	-	-
<b>Sub item b. (other receivables) – breaks down according to residual term to maturity as follows:</b>		
less than three months	11,209	13,144
from three months to one year	4,818	5,619
from one year to five years	13,418	13,068
more than five years	7,709	10,997
	<b>37,154</b>	<b>42,828</b>
<b>Used as cover funds</b>	<b>15,898</b>	<b>18,731</b>

### [7] Due from customers

	2009 €m	2008 €m
<b>This item includes:</b>		
<b>Loans to</b>		
affiliated companies	129	117
companies in which an interest is held	64	65
<b>Subordinated loans</b>	<b>0</b>	<b>0</b>
<b>This item breaks down by residual term to maturity as follows:</b>		
with indefinite term to maturity	257	2,292
less than three months	2,046	4,860
from three months to one year	2,278	1,916
from one year to five years	10,922	10,282
more than five years	7,038	8,846
	<b>22,541</b>	<b>28,196</b>
<b>Used as cover funds</b>	<b>6,744</b>	<b>6,542</b>

**[8] Bonds and other fixed-interest securities**

	2009 €m	2008 €m
<b>The marketable securities comprising this item include:</b>		
Listed	34,882	35,565
Unlisted	3,425	3,386
<b>Subordinated securities</b>	<b>43</b>	<b>103</b>
<b>Due within one year</b>	<b>13,247</b>	<b>11,732</b>
<b>Used as cover funds</b>	<b>2,357</b>	<b>1,921</b>
Book value of securities valued according to the diluted lower of cost or market principle	4,997	6,729
Book value of securities reported at more than fair value	1,610	3,821
Market value of securities reported at more than fair value	1,519	3,592

In the reporting year, securities with a book value of €1,478m were moved out of the “securities held as fixed assets” category and reclassified as “securities in the liquidity reserve”. These securities are allocated to non-core business and the original intention to keep these securities long term therefore no longer applies. This portfolio was valued strictly in accordance with the lower of cost or market principle in line with the rules for the liquidity reserve.

**[9] Shares and other non-fixed interest securities**

	2009 €m	2008 €m
<b>The marketable securities comprising this item include:</b>		
Listed	3,309	3,581
Unlisted	4,598	3,614
<b>Subordinated securities</b>	<b>12</b>	<b>12</b>
Book value of securities valued according to the diluted lower of cost or market principle	219	213
Book value of securities reported at more than fair value	34	27
Market value of securities reported at more than fair value	31	19

Securities held as fixed assets comprise fund units which are restricted as part of the company pension.

## [10] Equity investments

As in 2008, this item does not include any marketable securities.

## [11] Shares in affiliated companies

As in 2008, this item does not include any marketable securities.

## [12] Trust assets

The reported trust assets comprise amounts due from banks of €67m and amounts due from customers of €101m.

## [13] Tangible assets

	2009 €m	2008 €m
<b>This item includes:</b>		
Land and buildings used for the Bank's business activities	3	3
Office equipment	20	22

## [14] Changes in fixed assets

Assets in €'000	Costs of acquisition/p roduction	Additions	Disposals	Accumula- ted depre- ciation/ amortisation	Depreciation/ Amortisation for the year	Book value	
						31.12.2009	31.12.2008
			Changes +/- <sup>1</sup>				
Equity investments			-26			71	97
Shares in affiliated companies			-36			372	408
Securities held as fixed asstes			-1,726			5,216	6,942
Intangibles assets	59	4	5	50	0	8	10
Tangible assets	63	1	0	41	0	23	25
<b>Total</b>						<b>5,690</b>	<b>7,482</b>

<sup>1</sup> The aggregation option under Section 34 (3) RechKredV was utilised.

For changes in the item "securities held as fixed assets", see the information in Note [8].

## [15] Other assets

	2009 €m	2008 €m
<b>This item includes:</b>		
Premiums paid and margins for derivative financial instruments	13,732	8,420
Equalisation items for FFV valuation (trading book) including VaR discount	310	2,659
Tax refund claims	77	125
Due from custodial account holders	4	12
Corporation tax, capital gains tax and solidarity surcharge refunds	3	8

## [16] Prepaid expenses and accrued income

	2009 €m	2008 €m
<b>This item includes:</b>		
Premium/discount from underwriting and lending business	94	127
Prepaid expenses and accrued income – derivative financial instruments	28	28

## [17] Genuine repurchase agreements

As at 31 December 2009, the book value of lent securities or securities sold under repurchase agreements amounts to €4,089m. Pass-through securities lending transactions of €2,077m were also carried out.

## [18] Collateral transfer for own liabilities

Assets were transferred as collateral as follows for the liabilities below:

	2009 €m
Due to banks	3,141
Due to customers	14

The collateral was provided mainly for borrowings as part of genuine repurchase agreements. In addition, securities with a nominal value of €8,294m were pledged at German and foreign futures exchanges as collateral for transactions.



**[19] Due to banks**

	2009 €m	2008 €m
<b>This item includes:</b>		
<b>Liabilities to</b>		
affiliated companies	4,005	5,281
companies in which an interest is held	2,383	2,303
<b>Sub item b (with agreed maturity or period of notice) breaks down by residual term to maturity as follows:</b>		
less than three months	19,453	23,861
from three months to one year	2,233	5,733
from one year to five years	4,834	3,473
more than five years	1,625	1,996
	<b>28,145</b>	<b>35,063</b>

**[20] Due to customers**

	2009 €m	2008 €m
<b>This item includes:</b>		
<b>Liabilities to</b>		
affiliated companies	272	374
companies in which an interest is held	49	33
<b>Sub item b (with agreed maturity or period of notice) breaks down by residual term to maturity as follows:</b>		
less than three months	2,153	4,502
from three months to one year	1,102	1,526
from one year to five years	6,083	5,822
more than five years	6,468	7,788
	<b>15,806</b>	<b>19,638</b>

## [21] Securitised liabilities

	2009 €m	2008 €m
<b>Proportion of sub item a (issued bonds) maturing in the following year</b>	<b>4,682</b>	<b>5,712</b>
<b>Sub item b (other securities liabilities) breaks down by residual term to maturity as follows:</b>		
with indefinite term	5,225	65
less than three months	851	65
from three months to one year	283	436
more than five years	5	0
	<b>6,364</b>	<b>501</b>

## [22] Trust liabilities

Trust liabilities comprise €67m in amounts due to banks and €101m in amounts due to customers.

## [23] Other liabilities

	2009 €m	2008 €m
<b>This item includes:</b>		
Premiums received and margins for derivative financial instruments	22,967	16,407
Short sales of securities	6,927	1,693
Foreign exchange equalisation items	66	101
Bonuses for sales offices	78	86
Trade payables	27	59
Due to custodial customers	5	19
Interest on participating certificates	5	10
Securities lending	0	772

**[24] Accruals and deferred income**

	2009 €m	2008 €m
<b>This item includes:</b>		
Premiums/discounts from underwriting and lending business	54	64
Accruals and deferred income – derivative financial instruments	44	56

**[25] Subordinated liabilities**

	2009 €m	2008 €m
Expenses from subordinated liabilities	45	49
Accrued interest on subordinated liabilities	22	20

<b>Borrowings structured as follows:</b>	<b>Currency</b>	<b>Amount €m</b>	<b>Interest rate</b>	<b>Matures on</b>
Bonds				
	EUR	230	6-M-Euribor	09.06.2010
	EUR	300	5.38%	31.01.2014
	EUR	300	4.63%	21.12.2015
Promissory note loans				
	EUR	85	6.15 – 6.46%	18.05.2012
	EUR	40	4.43%	11.04.2016
	EUR	75	6.00%	05.07.2019

The subordinated liabilities comply with the requirements of Section 10 (5a) of the German Banking Act (KWG). The conversion of these funds into capital or any other form of debt has not been agreed or planned. DekaBank has no obligation to make an early repayment. As at the reporting date, subordinated liabilities of €889m meet the criteria for recognition as liable equity under Section 10 KWG.

## [26] Equity

The equity reported in the balance sheets breaks down as follows:

	<b>2009</b> <b>€m</b>	<b>2008</b> <b>€m</b>
a) Subscribed capital		
Subscribed capital	286	286
Typical silent capital contributions	756	756
Atypical silent capital contributions	52	52
b) Capital reserves	189	189
c) Retained earnings		
Reserves required by the Bank's statutes	51	51
Other retained earnings	69	63
<b>Balance sheet equity</b>	<b>1,404</b>	<b>1,398</b>

As at 31 December 2009, other reserves from retained earnings include a transfer to the reserves from the 2009 profit of €6m.

## [27] Foreign currency volumes

	<b>2009</b> <b>€m</b>	<b>2008</b> <b>€m</b>
Foreign currency assets	14,682	17,439
Foreign currency liabilities	2,719	8,628

## [28] Calculation of cover for mortgage and public sector lending business

### Mortgage Pfandbriefe

Total amounts by nominal value and present value								
	Nominal value		Present value		Risk-adjusted present value + 250 BP		Risk-adjusted present value - 250 BP	
	2009 €m	2008 €m	2009 €m	2008 €m	2009 €m	2008 €m	2009 €m	2008 €m
Outstanding mortgage Pfandbriefe	10	60	10	60	10	59	11	62
Cover funds mortgage Pfandbriefe	130	96	136	100	130	95	144	107
Cover surplus/shortfall	120	36	126	40	120	36	133	45

Maturity structure										
Maturity ranges	Less than 1 year		From 1 year to 2 years		From 2 years to 3 years		From 3 years to 4 years		From 4 years to 5 years	
	2009 €m	2008 €m	2009 €m	2008 €m	2009 €m	2008 €m	2009 €m	2008 €m	2009 €m	2008 €m
Outstanding mortgage Pfandbriefe	0	60	0	See column: From 4 years to 5 years	10	See column: From 4 years to 5 years	0	See column: From 4 years to 5 years	0	0
Cover funds mortgage Pfandbriefe	12	0	22	See column: From 4 years to 5 years	0	See column: From 4 years to 5 years	34	See column: From 4 years to 5 years	9	47

Maturity ranges	From 5 years to 10 years		More than 10 years		Total	
	2009 €m	2008 €m	2009 €m	2008 €m	2009 €m	2008 €m
Outstanding mortgage Pfandbriefe	0	0	0	0	10	60
Cover funds mortgage Pfandbriefe	37	33	16	16	130	96

As in 2008, the cover funds do not contain any derivatives.

**Total amount of additional cover assets**

	2009 €m	2008 €m
Additional cover assets in accordance with Section 19 (1) No.s 2 and 3 Pfandbrief Act	9	9

**Composition of cover funds by country**

Total amounts	Less than 0.3 m <sup>1)</sup>		From 0.3 m to 5 m <sup>1)</sup>		More than 5 m <sup>1)</sup>		Other cover		Total	
	2009 €m	2008 €m	2009 €m	2008 €m	2009 €m	2008 €m	2009 €m	2008 €m	2009 €m	2008 €m
Federal Republic of Germany	0	0	0	0	121	87	9	9	130	96
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>121</b>	<b>87</b>	<b>9</b>	<b>9</b>	<b>130</b>	<b>96</b>

1) Secured by mortgages

**Composition of cover funds by type of use**

Federal Republic of Germany	2009 €m	2008 €m
Commercial use	121	87
Residential use	0	0
Other cover	9	9
<b>Total</b>	<b>130</b>	<b>96</b>

**Composition of cover funds by type of building**

Federal Republic of Germany	2009 €m	2008 €m
Office buildings	67	46
Retail buildings	38	25
Industrial buildings	16	16
Other cover	9	9
<b>Total</b>	<b>130</b>	<b>96</b>

As in the previous year, there were no claims in the cover funds which were in arrears by more than 90 days as at the reporting date.

As in 2008, there were no foreclosure sales or forced administration procedures at the year-end.

As in the previous year, no foreclosure sales were carried out in financial year 2009.

As in 2008, the Bank did not have to take over any property to prevent losses on mortgages.

As in the previous year, there were no arrears on interest payable on the mortgage debt.



## Public sector Pfandbriefe

Total amounts by nominal value and present value								
	Nominal value		Present value		Risk-adjusted present value + 250 BP		Risk-adjusted present value - 250 BP	
	2009 €m	2008 €m	2009 €m	2008 €m	2009 €m	2008 €m	2009 €m	2008 €m
Outstanding public sector Pfandbriefe	22,000	24,128	23,253	25,306	21,981	23,915	24,816	27,025
Cover funds public sector Pfandbriefe	24,868	27,097	26,364	28,486	24,772	26,796	27,904	30,519
Cover surplus/shortfall	2,868	2,969	3,111	3,180	2,791	2,881	3,088	3,494

Maturity structure										
Maturity ranges	Less than 1 year		From 1 year to 2 years		From 2 years to 3 years		From 3 years to 4 years		From 4 years to 5 years	
	2009 €m	2008 €m	2009 €m	2008 €m	2009 €m	2008 €m	2009 €m	2008 €m	2009 €m	2008 €m
Outstanding public sector Pfandbriefe	4,775	4,783	3,554	See column: From 4 years to 5 years	2,613	See column: From 4 years to 5 years	4,938	See column: From 4 years to 5 years	1,976	14,343
Cover fund public sector Pfandbriefe	3,091	4,181	2,785	See column: From 4 years to 5 years	2,998	See column: From 4 years to 5 years	3,224	See column: From 4 years to 5 years	3,552	12,422

Maturity ranges	From 5 years to 10 years		More than 10 years		Total	
	2009 €m	2008 €m	2009 €m	2008 €m	2009 €m	2008 €m
Outstanding public sector Pfandbriefe	2,900	3,552	1,244	1,450	22,000	24,128
Cover fund public sector Pfandbriefe	6,660	8,865	2,558	1,629	24,868	27,097

As in the previous year, the cover funds do not contain any derivatives.

Total amount of additional cover assets		
	2009 €m	2008 €m
Additional cover assets in accordance with Section 20 (2) No 2 Pfandbrief Act	1	2

## Distribution of cover funds

Total nominal value of cover assets by country/type	Government		Regional authorities		Local authorities		Other debtors		Total	
	2009 €m	2008 €m	2009 €m	2008 €m	2009 €m	2008 €m	2009 €m	2008 €m	2009 €m	2008 €m
Federal Republic of Germany	280	331	2,473	3,833	880	1,030	19,038	20,979	22,671	26,173
European Investment Bank (EIB)	0	0	0	0	0	0	28	0	28	0
Finland	0	0	0	0	28	54	118	2	146	56
France (excluding Monaco)	0	0	0	0	0	0	124	0	124	0
Greece	50	50	0	0	0	0	0	0	50	50
Great Britain and Northern Ireland (including Isle of Man, British Channel Islands)	0	0	0	0	0	0	254	200	254	200
Ireland, Republic	30	0	0	0	0	0	25	0	55	0
Italy (excluding San Marino)	0	0	7	0	12	0	0	0	19	0
Canada	0	0	59	0	0	0	34	0	93	0
Lithuania	0	0	0	0	49	47	0	0	49	47
Netherlands	0	0	0	0	0	0	0	200	0	200
Austria (excluding Jungholz and Mittelberg)	0	0	0	0	0	0	5	0	5	0
Poland	114	75	0	0	0	0	0	0	114	75
Portugal (including Azores and Madeira)	0	0	0	0	0	0	60	0	60	0
Sweden	0	0	0	0	0	0	266	6	266	6
Slovakia	5	0	0	0	0	0	0	0	5	0
Spain	0	0	0	10	0	0	190	238	190	248
Czech Republic	0	0	0	0	0	0	27	0	27	0
Hungary	0	0	0	0	1	3	0	0	1	3
United States of America (including Puerto Rico)	0	0	0	0	0	0	711	39	711	39
<b>Total</b>	<b>479</b>	<b>456</b>	<b>2,539</b>	<b>3,843</b>	<b>970</b>	<b>1,134</b>	<b>20,880</b>	<b>21,664</b>	<b>24,868</b>	<b>27,097</b>

N.B.

Since 30 June 2009, guaranteed assets are only shown in the row for the guaranteeing country in the "Other debtors" column and the country of the primary debtor is no longer shown.

The sub-column "Guarantor" in the "Other debtors" column in the previous year's table no longer applies.

This affects the following figures reported as at 31 December 2008:

Turkey (figure as at 31.12.2008: €7m/figure as at 31.12.2009: €4m), Cayman Islands (figure as at 31.12.2008: €63m/figure as at 31.12.2009: €1m)

Cyprus (figure as at 31.12.2008: €7m/figure as at 31.12.2009: €4m), France (figure as at 31.12.2008: €10m/figure as at 31.12.2009: €4m)

Tunisia (figure as at 31.12.2008: €6m/figure as at 31.12.2009: €5m), Croatia (figure as at 31.12.2008: €2m/figure as at 31.12.2009: €1m) and Bulgaria (figure as at 31.12.2008: €12m/figure as at 31.12.2009: €4m).

Since 30 June 2009, these figures are shown in each case as aggregate figures in the row for the guarantor country in the "Other debtors" column.

As in 2008, there were no claims in the cover funds that were in arrears by more than 90 days as at the reporting date.

## Notes to the income statement

### **[29] Other operating income**

Other operating income consisted mainly of €236m from intercompany offsetting, €13m from the reversal of provisions and €39m from other tax refunds.

### **[30] Other operating expenses**

This item includes restructuring expenses of €31m and a transfer to the provision for sales tax (VAT) of €12m.

### **[31] Management and intermediary services provided for third parties**

Services provided for third parties, especially comprise custody account management.

### **[32] Related party disclosures**

Transactions are carried out with related parties at normal market terms and conditions as part of ordinary business activities.

### [33] Derivative transactions

Details of the derivative transactions in place as at the reporting date are shown in the following overviews:

Derivative transactions - volume				
	Nominal values		Full fair values positive market values	Full fair values negative market values
	31.12.2009 €m	31.12.2008 €m	31.12.2009 €m	31.12.2009 €m
<b>Interest rate risks</b>				
Interest rate swaps	566,461.9	525,015.2	7,141	7,355
Forward rate agreements	17,785.0	56,267.5	1	6
Interest rate options				
Purchases	539.6	332.6	6	—
Sales	1,675.2	546.1	—	24
Caps, floors	100.0	—	—	2
Stock market contracts	15,841.1	10,356.1	3	3
Other interest rate forward transactions	4,066.4	53.0	145	241
<b>Total</b>	<b>606,469.2</b>	<b>592,570.5</b>	<b>7,296</b>	<b>7,631</b>
<b>Currency risks</b>				
Forward exchange transactions	11,706.0	17,562.8	89	102
Currency swaps, interest rate currency swaps	11,323.9	9,290.8	325	393
Currency options				
Purchases	—	—	—	—
Sales	—	—	—	—
<b>Total</b>	<b>23,029.9</b>	<b>26,853.6</b>	<b>414</b>	<b>495</b>
<b>Share and other price risks</b>				
Equity forward transactions	2,073.5	3,658.5	177	32
Share options				
Purchases	8,775.1	7,995.5	6,491	—
Sales	6,434.7	5,903.9	—	9,593
Stock market contracts	94,485.0	74,364.3	6,833	13,158
Other forward transactions	19,161.3	17,953.9	304	412
<b>Total</b>	<b>130,929.6</b>	<b>109,876.1</b>	<b>13,805</b>	<b>23,195</b>
<b>Overall total</b>	<b>760,428.7</b>	<b>729,300.2</b>	<b>21,515</b>	<b>31,321</b>

## Derivative transactions – classification by maturities (nominal values)

	Interest rate risks		Currency risks		Share and other price risks	
	31.12.2009 €m	31.12.2008 €m	31.12.2009 €m	31.12.2008 €m	31.12.2009 €m	31.12.2008 €m
<b>Residual term to maturity</b>						
less than 3 months	138,453.7	277,687.8	6,930.7	13,101.2	21,891.7	11,911.0
from 3 months to 1 year	195,625.4	118,514.5	6,041.3	4,720.9	18,649.1	11,313.8
from 1 year to 5 years	181,820.4	119,864.1	6,238.2	5,547.5	81,874.7	74,976.4
more than 5 years	90,569.7	76,504.1	3,819.7	3,484.0	8,514.1	11,674.9
<b>Total</b>	<b>606,469.2</b>	<b>592,570.5</b>	<b>23,029.9</b>	<b>26,853.6</b>	<b>130,929.6</b>	<b>109,876.1</b>

## Derivative transactions – classification by counterparties

	Nominal values		Full fair values positive market values	Full fair values negative market values
	31.12.2009 €m	31.12.2008 €m	31.12.2009 €m	31.12.2009 €m
Banks in the OECD	620,531	617,264	7,972	8,602
Public sector entities in the OECD	2,344	3,568	99	12
Other counterparties	137,553	108,468	13,443	22,707
<b>Total</b>	<b>760,429</b>	<b>729,300</b>	<b>21,515</b>	<b>31,321</b>

## Derivative transactions – trading book

	Nominal values		Full fair values positive market values	Full fair values negative market values
	31.12.2009 €m	31.12.2008 €m	31.12.2009 €m	31.12.2009 €m
Interest rate contracts	502,604	481,166	4,728	4,902
Currency contracts	5,039	5,758	25	84
Share contracts	127,153	106,043	13,762	23,070
<b>Total</b>	<b>634,796</b>	<b>592,967</b>	<b>18,515</b>	<b>28,056</b>

## Other information

### [34] Average number of staff

Number	2009	2008
Full-time employees	2,075	1,948
Part-time and temporary employees	332	309
	<b>2,407</b>	<b>2.257</b>

### [35] Remuneration of Board members

	2009 €	2008 €
<b>Remuneration of active Board members</b>		
Board of Management	4,908,530.62	10,436,559.54
Administrative Board	657,327.77	650,277.79
<b>Remuneration paid to former Board members and surviving dependants</b>		
Board of Management	2,538,106.62	2,538,609.43
Provisions for pension commitments to these persons	25,627,850.00	24,703.766.00

The remuneration for members of the Board of Management indicated above comprises all remuneration paid in the respective financial year, including variable components relating to previous years.

### [36] Loans to Board members

No loans or advances were granted to the members of the Board of Management or Administrative Board, nor were there any contingent liabilities in favour of these persons.



## Seats on supervisory bodies

### [37] Notes to seats on supervisory bodies (as at January 2010)

#### Herr Franz S. Waas, Ph.D. (Chairman of the Board of Management)

Chairman of the Supervisory Board	Deutsche Landesbankenzentrale	Berlin
Chairman of the Administrative Board	Liquiditäts-Konsortialbank GmbH	Frankfurt/Main
Deputy Chairman of the Advisory Board	VÖB-Service GmbH	Bonn

#### Herr Oliver Behrens (Member of the Board of Management)

Chairman of the Supervisory Board	Deka Investment GmbH	Frankfurt/Main
Chairman of the Supervisory Board	Deka FundMaster Investmentgesellschaft mbH	Frankfurt/Main
Chairman of the Supervisory Board	Sparkassen Pensionsfonds AG	Cologne
Chairman of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Chairman of the Administrative Board	Deka(Swiss) Privatbank AG	Zurich, Switzerland
Chairman of the Administrative Board (until 9.3.2009)	Deka International (Ireland) Ltd.	Dublin, Ireland
Deputy Chairman of the Supervisory Board	Sparkassen-PensionsManagement GmbH	Cologne
Deputy Chairman of the Supervisory Board	Sparkassen Pensionskasse AG	Cologne
Deputy Chairman of the Supervisory Board	Sparkassen PensionsBeratungs GmbH	Cologne
Member of the Shareholder Committee	Dealis Fund Operations GmbH	Frankfurt/Main

#### Herr Dr. Matthias Danne (Member of the Board of Management)

Chairman of the Administrative Board	Deka Immobilien Investment GmbH	Frankfurt/Main
Chairman of the Administrative Board	WestInvest Gesellschaft für Investmentfonds mbH	Düsseldorf
Chairman of the Administrative Board	Deka Immobilien GmbH	Frankfurt/Main
Chairman of the Administrative Board	STIER Immobilien AG	Frankfurt/Main

#### Walter Groll (Member of the Board of Management)

Chairman of the Supervisory Board	ETFlab Investment GmbH	Munich
Deputy Chairman of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Deputy Chairman of the Administrative Board (until 9.03.2009)	Deka International (Ireland) Ltd.	Dublin, Ireland

**Herr Hans-Jürgen Gutenberger (Member of the Board of Management)**

Deputy Chairman of the Supervisory Board	Deka Immobilien GmbH	Frankfurt/Main
Deputy Chairman of the Supervisory Board	Deka FundMaster Investmentgesellschaft mbH	Frankfurt/Main
Deputy Chairman of the Supervisory Board	S Broker AG & Co. KG	Wiesbaden
Deputy Chairman of the Supervisory Board	S Broker Management AG	Wiesbaden
Member of the Supervisory Board	Sparkassen-PensionsManagement GmbH	Cologne
Member of the Supervisory Board	Sparkassen Pensionsfonds AG	Cologne
Member of the Supervisory Board	Sparkassen Pensionskasse AG	Cologne
Member of the Supervisory Board	Sparkassen PensionsBeratungs GmbH	Cologne
Member of the Administrative Board	Deka(Swiss) Privatbank AG	Zurich, Switzerland
Member of the Supervisory Board	Deutsche Landesbankenzentrale AG	Berlin

**Dr. h. c. Friedrich Oelrich (Member of the Board of Management)**

Deputy Chairman of the Supervisory Board	Deka Investment GmbH	Frankfurt/Main
Deputy Chairman of the Supervisory Board	ETFlab Investment GmbH	Munich
Deputy Chairman of the Supervisory Board	Deka Immobilien Investment GmbH	Frankfurt/Main
Deputy Chairman of the Supervisory Board	WestInvest Gesellschaft für Investmentfonds mbH	Düsseldorf
Deputy Chairman of the Supervisory Board	SIZ Informatikzentrum der Sparkassenorganisation GmbH	Bonn
Deputy Chairman of the Supervisory Board	Deutsche Landesbankenzentrale AG	Berlin
Member of the Supervisory Board	Deka Immobilien GmbH	Frankfurt/Main
Member of the Supervisory Board	Deka FundMaster Investmentgesellschaft mbH	Frankfurt/Main
Member of the Supervisory Board	Sparkassen Rating und Risikosysteme GmbH	Berlin
Member of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Member of the Administrative Board	Deka(Swiss) Privatbank AG	Zurich, Switzerland
Member of the Administrative Board (until 9.03.2009)	Deka International (Ireland) Ltd.	Dublin, Ireland
Member of the Shareholders Committee	Dealis Fund Operations GmbH	Frankfurt/Main

## Board members of DekaBank Deutsche Girozentrale

### [38] Notes to the Board members of DekaBank Deutsche Girozentrale (as at 31.01.2010)

#### Board of Management:

##### **Franz S. Waas, Ph.D.**

Chairman of the Board of Management

##### **Oliver Behrens**

Member of the Board of Management

##### **Dr. Matthias Danne**

Member of the Board of Management

##### **Walter Groll**

Member of the Board of Management

##### **Hans-Jürgen Gutenberger**

Member of the Board of Management

##### **Dr. h. c. Friedrich Oelrich**

Member of the Board of Management

#### Administrative Board:

##### **Heinrich Haasis**

Chairman

President of the German Savings Banks Association and Giro Association e.V.

##### **Hans-Jörg Vetter**

First Deputy Chairman (from 10.09.2009)

Member (until 10.06.2009 and from 01.08. to 09.09.2009)

Chairman of the Management Board of Landesbank Berlin AG

Chairman of the Management Board of Landesbank Baden-Württemberg

##### **Dr. Rolf Gerlach**

Second Deputy Chairman (from 05.03.2009)

First Deputy Chairman (until 10.02.2009)

Member (from 11.02. to 04.03.2009)

President of the Savings Bank Association of Westphalia-Lippe

##### **Dr. Siegfried Jaschinski**

(until 20.05.2009)

First Deputy Chairman (from 05.03.2009)

Second Deputy Chairman (until 10.02.2009)

Member (from 11.02. to 04.03.2009)

Chairman of the Management Board of Landesbank Baden-Württemberg

##### **Dr. Stephan Articus**

Executive Director of the German Association of Cities

##### **Gregor Böhmer**

(until 28.02.2009)

Managing President of the

Savings Banks and Giro Association of Hesse-Thuringia

##### **Hans-Dieter Brenner**

Chairman of the Management Board of Landesbank Hessen-Thüringen Girozentrale

##### **Michael Breuer**

President of the Rhineland Savings Banks and Giro Association

##### **Thomas Christian Buchbinder**

Chairman of the Management Board of Landesbank Saar

##### **Michael Dörr**

Chairman of the Staff Committee of

DekaBank Deutsche Girozentrale

##### **Dr. Gunter Dunkel**

(from 11.02.2009)

Chairman of the Management Board

of NORD/LB Norddeutsche Landesbank Girozentrale

##### **Dr. Johannes Evers**

(from 01.08.2009)

Chairman of the Management Board

of Landesbank Berlin AG

##### **Gerhard Grandke**

(from 01.03.2009)

Managing President

of the Savings Banks and Giro Association of Hesse-Thuringia

##### **Klaus-Dieter Gröb**

(from 11.02.2009)

Member of the Management Board of

Landesbank Hessen-Thüringen Girozentrale

##### **Prof. Dr. Hans-Günter Henneke**

Managing Member of the Presiding Board

of the German County Association

##### **Reinhard Henseler**

Chairman of the Management Board of

Nord-Ostsee-Sparkasse

**Heinz Hilgert**

(until 18.05.2009)

Chairman of the Management Board of WestLB AG

**Jürgen Hilse**

(until 31.12.2009)

Chairman of the Management Board of Kreissparkasse Göppingen

**Michael Horn**

(from 11.02.2009)

Deputy Chairman of the Management Board of Landesbank Baden-Württemberg

**Dr. Stephan-Andreas Kaulvers**

Chairman of the Management Board of Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –

**Dr. Michael Kemmer**

(until 14.12.2009)

Chairman of the Management Board of Bayerische Landesbank

**Thomas Mang**

President of the Savings Banks Association of Lower Saxony

**Harald Menzel**

Chairman of the Management Board of Kreissparkasse Freiberg

**Dr. Siegfried Naser**

Managing President of the Savings Banks Association Bavaria

**Prof. Dr. Dirk Jens Nonnenmacher**

(from 11.02.2009)

Chairman of the Management Board of HSH Nordbank AG

**Richard Nospers**

(until 02.11.2009)

Managing Director of the Saarland Association of Towns and Municipalities

**Peter Rieck**

(from 11.02.2009 to 15.11.2009)

Deputy Chairman of the Management Board of HSH Nordbank AG

**Hans-Werner Sander**

Chairman of the Management Board of Sparkasse Saarbrücken

**Heike Schillo**

Member of the Staff Committee of DekaBank Deutsche Girozentrale

**Peter Schneider**

President of the Savings Banks Association Baden-Württemberg

**Hans Otto Streuber**

President of the Savings Banks and Giro Association Rhineland-Palatinate

**Dr. Harald Vogelsang**

(from 11.02.2009)

Management Board Spokesman of Hamburger Sparkasse and President of the Hanseatic Savings Banks and Giro Association

**Dietrich Voigtländer**

(from 01.08.2009)

Chairman of the Management Board of WestLB AG

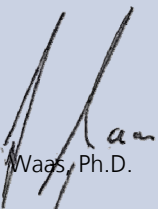
## Assurance of the Board of Management

We assure that to the best of our knowledge, the annual financial statements prepared in accordance with the applicable reporting standards convey a true and fair view of the net assets, financial position and results of operations of the Company and that the management report conveys a true and fair view of the business performance including the business results and position of the Company and suitably presents the material risks and opportunities and likely development of the Company.

Frankfurt/Main, 12 February 2010

DekaBank  
Deutsche Girozentrale

### The Board of Management



Waas, Ph.D.



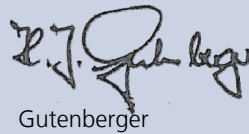
Behrens



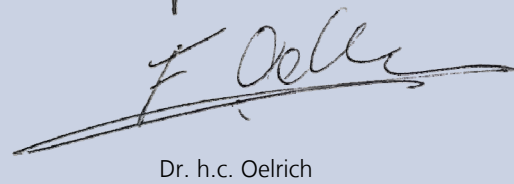
Dr. Danne



Groll



Gutenberg



Dr. h.c. Oelrich

## Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the DekaBank Deutsche Girozentrale, Berlin/Frankfurt am Main, for the business year from 1 January to 31 December 2009. The maintenance of the books and records and the preparation of the annual financial statements and the management report in accordance with German commercial law are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, 15 February 2010

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Roland Rausch  
Wirtschaftsprüfer  
(German Public Auditor)

Stefan Palm  
Wirtschaftsprüfer  
(German Public Auditor)

# Glossary

## **Advanced measurement approach (AMA) for operational risks**

With this approach, the regulatory equity cover for operational risks is calculated using an internal risk model. Equity cover is determined on a VaR basis with a confidence level of 99.9% and a monitoring period of one year.

## **Advisory/management and asset management mandate**

External fund which is managed by an investment company (KAG) of the DekaBank Group. For advisory mandates, the KAG acts only as an adviser, i.e. the external management company must verify compliance with investment regulations in advance. For management mandates, however, investment decisions are made, verified and implemented by the KAG of the DekaBank Group. For asset management mandates, investors' assets are managed in line with their individual investment goals and in compliance with all restrictions following the conclusion of an asset management contract.

## **Asset-backed securities (ABS)**

Securities (mainly bonds or promissory note loans) issued by a special purpose vehicle and secured by assets (primarily receivables). ABS paper is issued in different tranches, which are subordinate to each other. The claims to repayment and interest for the respective senior tranches are serviced first from the incoming payments received by the special purpose vehicle (waterfall principle).

## **Assets under Management (AuM)**

AuM (AMK & AMI) essentially comprise the income-relevant volume of mutual and special fund products in the Asset Management Capital Markets (AMK) and Asset Management Property (AMI) divisions, direct investments in cooperation partner funds, the share of fund-

based asset management attributable to cooperation partners, third party funds and liquidity as well as the advisory/management and asset management mandates.

## **Balance sheet lending**

Transactions in which different refinancing cost levels (liquidity spreads) are traded between banks.

## **Collateralised debt obligation (CDO)**

Securitisation backed by a diversified portfolio – consisting mostly of receivables from loans and bonds. As a rule, a CDO is split into various tranches of different creditworthiness. The CDO is a special form of ABS.

## **Collateralised loan obligation (CLO)**

Securitisation whose performance depends on a portfolio of corporate loans. The CLO is a sub-form of the CDO.

## **Collateralised synthetic obligation (CSO)**

Securitisation whose performance depends on a portfolio of credit default swaps (CDS). A variant of this product group is the bespoke CSO where the portfolio is directly agreed between the arranger and the investor.

## **Commercial mortgage-backed securities (CMBS)**

Securities collateralised by the cash flows from a mortgage or a pool of mortgages on commercial property.

## **Commission business**

Trading and processing of financial instrument transactions on behalf of customers (bank trading on behalf of third party).

## **Confidence level**

Probability that a potential loss will not exceed an upper loss limit defined by means of the value-at-risk (VaR).

## **Constant proportion portfolio insurance (CPPI)**

Dynamic portfolio insurance concept facilitating participation in rising markets with simultaneous protection against losses in nominal value depending on an asset allocation strategy agreed in advance. The extent of investment is managed so that in the event of a worst case scenario, the minimum portfolio value does not fall below a predetermined level.

## **Core business**

DekaBank's core business comprises launching and managing securities and property funds for private and institutional investors as well as transactions which support and complement Asset Management along the entire Asset Management value-creation chain. These include, among other things, services in connection with fund-based asset management, the investment custody business and activities in the Corporates & Markets business division.

## **Correlation**

A correlation reveals the extent of synchronisation by indicating both the strength and direction of the relationship between two risk factors. The standard sizes of a correlation range in value between  $-1$  (perfect negative correlation) and  $+1$  (perfect positive correlation).



**Cost/income ratio (CIR)**

The CIR is a productivity indicator, providing information about the amount that has to be spent in order to earn €1 in profit. In the DekaBank Group, this indicator is calculated from the ratio of total expenses (excluding restructuring expenses) to total income (before risk provision) in the financial year.

**Credit default swap (CDS)**

A credit default swap is a credit derivative for trading default risks on loans, bonds or borrower names. Normally, the protection buyer pays a regular (often quarterly or halfyearly) fee and when the credit event defined on contract conclusion takes place, e.g. default on a payment due to the insolvency of the borrower, the protection buyer receives a compensation payment from the protection seller. The CDS is similar to a loan insurance transaction and gives banks and other investor groups a flexible instrument for trading credit risks and hedging portfolios.

**Economic result**

As a central control variable, together with economic risk, the economic result forms the basis for risk/return management in the DekaBank Group and is, in principle, determined in accordance with IFRS accounting and measurement policies. As well as net income before tax, the economic result includes changes in the revaluation reserve before tax as well as the interest rate-related valuation result from original lending and issuance business, which are not recognised in the income statement under IFRS but are, however, relevant for assessing the income situation. 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.

**Equity method**

The shares in associated companies or joint ventures are included in the consolidated balance sheet when they have a material impact on acquisition costs. In subsequent years, the equity figure carried in the balance sheet is updated by the Group share of changes in the associated company's equity. The proportional net income of the relevant company is posted to the consolidated income statement as income from equity investments.

**Exposure**

In the monitoring of credit risks, exposure is understood as the sum of all risk positions involved in the transactions of an economic borrower group with the constituent partners.

**Fair value**

The amount at which an asset is exchanged between knowledgeable, willing parties in an arm's length transaction or the amount at which a liability can be paid. Depending on the case in question, the value concept is fleshed out by measures of value, such as market value, or in the absence of such a benchmark, by internal valuation models.

**Fair value hedge**

This primarily concerns fixed-interest items (e.g. loans or securities) that can be hedged against changes in fair value by derivatives.

**Fund assets (according to BVI)**

Fund assets according to BVI comprise the fund assets of the mutual and special funds and funds-of-funds as well as the Master-KAG mandates. Direct investments in cooperation 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.

**Fund-based asset management**

Generic term for structured investment products such as funds-of-funds and fund-linked asset management products.

**Fund-of-funds**

Investment funds that invest indirectly in securities, i.e. via other funds. The investment policy of funds-of-funds is mostly geared to the steady reproduction of a certain portfolio structure on the basis of a defined chance/risk profile.

**Goodwill**

In a shareholding acquisition or a company takeover, the difference arising from offsetting the acquisition cost against the fair value of assets and liabilities is called goodwill.

**Hybrid capital**

Mixed form of borrowed capital and equity making it possible to find an optimum position in balancing interests between the desire to assume risk and the constraints placed on corporate management. Typical representatives of hybrid capital are secondary loans, silent capital contributions or participating certificates.

**IFRS (International Financial Reporting Standards)**

In addition to the standards designated as IFRS, "IFRS" also includes the existing International Accounting Standards and the interpretations of the Standing Interpretation Committee (SIC) and the International Financial Reporting Interpretation Committee (IFRIC), as well as the Standards and Interpretations to be published by the IAS Board in the future.

**Impairment**

Unplanned write-down of asset values such as goodwill, receivables and property, plant and equipment due to anticipated decline in value of the corresponding assets.

**MaRisk (German minimum requirements for risk management)**

Mandatory requirement by the German Federal Financial Supervisory Authority (BaFin) for the risk management practices of German credit institutions. As the supervisory authority, BaFin provides concrete details regarding Section 25a Para. 1 of the German Banking Act (KWG) in the minimum requirements for risk management.

**Master KAG**

An investment company functioning as a specialised service KAG (capital investment company) in which it outsources portfolio management tasks for individual mandates to various external asset managers but prepares a consistent series of reports for institutional investors. This enables institutional investors to bundle all their administered assets with a single investment company.

**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 performance, this figure does not include the funds of cooperation partners or advisory/management and asset management mandates. However, the net sales from own investments and fund-of-funds are taken into account in the net funds inflow.

**Net sales performance**

Performance indicator of sales success. This results essentially from the total of direct sales of mutual and special funds, fund-based asset management, the funds of cooperation partners and the Master KAG, advisory/management and asset management mandates. Sales generated through own investments are not taken into account.

**Non-core business**

Positions from credit and capital market business that are not suitable for Asset Management or to release synergies with Asset Management constitute non-

core business. At the DekaBank Group, these positions have been separated internally. They are reported separately from core business and reduced while safeguarding assets at the same time.

**Payments to the alliance partners**

Payments made by the DekaBank 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.

**Primary/secondary cover pools**

Primary cover pools are composed of the annual net income contribution, IFRS balance-sheet equity and atypical silent capital contributions. Secondary cover pools consist of subordinated debt capital positions that can also be used to cover primary liabilities.

**Primary/secondary market**

The primary market (otherwise known as the new issue market) is the capital market for the initial issue of securities. Trading of issued securities, especially bonds and shares, occurs on the secondary market (usually in organised trading on securities exchanges).

**Rating**

Standardised creditworthiness/risk assessment of companies, countries or the debt instruments that they issue based on standardised qualitative and quantitative criteria. From a bank's point of view, the result of the rating process provides the basis for establishing the probability of default, which must in turn be incorporated in calculating equity requirements for the credit risk. Ratings can be issued by the bank itself (internal ratings) or by specialised rating agencies such as Standard & Poor's or Moody's (external ratings).

**Ratio of intra-alliance business**

Proportion of DekaBank Group products in the total fund sales of the savings banks and Landesbanken as a measure

of acceptance in the *Sparkassen-Finanzgruppe*.

**Repo/lending transactions**

Repo transactions are repurchase agreements (securities repurchase agreements). As part of repo transactions, securities are sold and at the same time repurchase is agreed at a fixed date and price stipulated ex ante. Securities lending involves lending securities for a specific period of time in return for payment. In some cases, the lender makes securities available.

**Residential mortgage-backed securities (RMBS)**

Securities collateralised by the cash flows from a mortgage or a pool of mortgages on residential property.

**Return on equity (RoE)**

Economic result divided by equity including atypical silent capital contributions. The RoE also reflects the payment of interest on capital provided by shareholders.

**Revaluation reserves**

Revaluation reserves include fair value valuation effects from financial instruments in the available for sale category and deferred tax effects, while not affecting net profit.

**Securities finance**

Covers all repo and securities lending transactions as well as securities lending substitute transactions with derivatives. Repos are repurchase agreements concluded as part of a repurchase agreement transaction (securities repurchase agreement). Under a repo, securities are sold and an agreement is reached at the same time to repurchase them on a fixed date at a price defined ex ante. In securities lending transactions, securities are loaned for a limited period of time in return for a fee. If necessary, the borrower furnishes collateral.

**Sensitivities**

Sensitivities are ratios which reflect changes in market value in response to the change in an individual risk factor.

**Spread**

Difference between the purchase price and the selling price of certain financial products (e.g. foreign currency, certificates, futures etc.).

**Sustainability**

DekaBank uses the definition of the term by the World Commission on Environment and Development, a United Nations organisation, from 1987 as the guiding principle of its activities relating to developing a sustainable business model: "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

**Syndication/syndicated loan**

A loan collectively awarded by a group of banks (consortium), otherwise known as a consortium loan. Syndication provides an opportunity for several banks to share the overall risk involved in a loan.

**Utilisation of risk-bearing capacity**

Indicator of the relationship between the Group risk (business, market, credit, shareholding, property, property fund and operational risk) and the cover pools.

**Value-at-risk (VaR)**

The VaR of a portfolio identifies the maximum possible loss that might arise within a prescribed period (= holding period, for example 10 days) and with a specific probability (= confidence level, for example 95%).

**Variance-covariance method**

Procedure for determining the value-at-risk. In the context of this method, which is also known as the parametric, analytic or delta-normal method, risk factor volatilities and correlations are used to determine the value-at-risk. It is assumed that the fluctuations in the risk factors conform to a normal distribution.

**Volatility**

Measure of the fluctuation intensity of a risk factor over a predefined period. A distinction is made between historical and implied volatility.

### Internet website

The company financial statements are available to download in English and German on the website [www.dekabank.de](http://www.dekabank.de) under "Investor Relations/Financial Publications".

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This report was prepared in March 2010

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