DekaBank
Deutsche Girozentrale
Annual financial statements 2011

DekaBank

Content

Management report 2011 of DekaBank Deutsche Girozentrale

At a glance

Financial year 2011 centred on the savings banks' acquisition of all of the shares in DekaBank. The trust-based cooperation with the savings banks, our exclusive sales partners in retail business and our most important institutional customers, is now also reflected by the shareholder structure. Following the change in the shareholder structure, we launched various campaigns to tailor the proven integrated business model, which is based on asset management and supporting capital market activities, even more precisely to the requirements of the savings banks and their customers. The joint aim is to strengthen securities business as part of the investment process and progressively increase our added value contribution to the savings banks.

In line with expectations, this added value contribution did not match the previous year's figure in 2011, due to increasing pressure on the capital markets. First and foremost, the national debt crisis in the eurozone further unsettled investors and adversely impacted fund sales. Like our main competitors, we recorded funds outflows in net terms. Marked volatility, widening credit spreads and downgraded issuer ratings were factors that led to a significantly negative valuation result for individual bond positions in the affected eurozone countries and for capital market credit products. In addition, the revaluation of some financed projects, which became necessary in view of the slowdown in economic activity, resulted in higher provisions for loan losses.

The reporting year nevertheless closed with a satisfactory economic result of €383.1m. We mainly achieved this due to comparatively steady trend in net interest and commission income as well as the contribution from customer trading activities. Net interest income reflects a stable development in the interest margin in conjunction with a decrease in portfolio volumes. With regard to net commission income, we partially compensated for the adverse effects of a decline in assets under management with performance-related income. Net financial income from trading positions, i.e. from customer business, actually exceeded the previous year's level. Demand from the savings banks for structured solutions and short-term liquidity was high.

In view of the unsatisfactory fund sales, we took prompt action. The sales launch of our Deka-Vermögenskonzept (Deka Wealth Concept), the new generation of structured investments, was positive, although the turmoil in the capital markets also had an impact here to some extent. We believe that the upcoming launch of a flexible fund of funds concept for basic investments, which is scheduled in 2012, offers great potential. The same applies to the enhanced fund savings plan models and new mixed and guaranteed funds. On the basis of this attractive product range and significantly strengthened local sales teams, we intend to convince savings bank customers across the board of the benefits of actively managed investment funds. We aim to increase both sales and payments to the alliance partners over the coming years.

Our growth course will remain consistently yield-based and risk-oriented in the future. An appropriate return on equity while ensuring the Bank's risk-bearing capacity at all times is just as much a prerequisite for DekaBank's stable ratings as an adequate core tier 1 capital ratio, all of which ensure the Bank's funding strength. We largely retained our strong ratings and passed the EBA (European Banking Authority) stress test conducted in 2011 as well as the subsequent ad-hoc tests by a large margin in each case. Nevertheless, it is necessary for us to increase the core tier 1 capital ratio, which decreased as a result of the purchase of the Bank's own shares that took place as part of the change in the shareholder structure, as rapidly as possible to the 12% target. Until we have achieved this, the application of net income will focus on profit retention while ensuring appropriate distribution to shareholders.

Structure, products and services of the DekaBank Group

DekaBank is the central asset manager for the Sparkassen-Finanzgruppe. The Bank offers integrated asset management services from under one roof 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.

The value we add ranges from procuring the assets for our various investment products and structuring them to enhancing them and delivering a finished product solution which promptly responds to market trends and investor requirements. The three business divisions cooperate closely together to continually develop and expand their product ranges. In the process, they take into account key capital and property market trends as well as the different risk profiles and investment strategies of private and institutional customers.

Legal structure and corporate governance

DekaBank is a German institution incorporated under public law with registered offices in Frankfurt/Main and Berlin. The shareholder structure of DekaBank changed fundamentally in the period under review. With effect as of 9 June 2011, the 50% stake previously held indirectly by the Landesbanken was transferred to Deka Erwerbsgesellschaft mbH & Co. KG and Deka Treuhandgesellschaft Erwerbsgesellschaft mbH. The savings banks have pooled their shares via the regional savings banks and giro associations affiliated with them in Deka Erwerbsgesellschaft mbH & Co. The new shareholder joins the German Savings Banks and Giro Association (DSGV ö.K.).

Of the purchase price totalling €2.3bn, the savings banks paid approximately €1.3bn. The remaining amount of around €1.0bn was contributed by DekaBank on the strength of the profit retained from the excellent results achieved in the 2009 and 2010 financial years. The Bank acquired shares worth approximately €1.0bn via Deka Treuhandgesellschaft Erwerbsgesellschaft mbH, which correspondingly reduced the Bank's equity.

The DekaBank Group strictly adheres to the principles of responsible corporate management. The corporate governance concept for the management and supervision of the Group defines clear and distinct responsibilities for boards and committees and enables an efficient and streamlined decision-making process. In the year under review, DekaBank's code of ethics was comprehensively reviewed and revised and its content was expanded.

In September 2011, the Administrative Board of DekaBank approved the new division of responsibilities at the Board of Management level. As a result, the full Board of Management of DekaBank comprises five members. As before, the business activities are combined in the Asset Management Capital Markets (AMK), Asset Management Property (AMI) and Corporates & Markets (C&M) business divisions. The activities of C&M were formerly allocated to the Board of Management member responsible for capital markets, however, this post has been vacant since 1 July 2011 and the activities have been reassigned. Oliver Behrens, the member of the Board of Management in charge of the AMK business division, is now also responsible for the Markets sub-division within C&M and therefore for all of DekaBank's capital market based products. CFO Dr. Matthias Danne, who remains responsible for the AMI business division, including Real Estate Lending, additionally took over responsibility for DekaBank's other lending activities. Chief Sales and Marketing Director Hans-Jürgen Gutenberger has also assumed responsibility for Treasury until his retirement on 30 June 2012. The duties of Franz S. Waas, as Chairman of the Board of Management, and Dr. h. c. Friedrich Oelrich, as Chief Risk Officer, remained unchanged.

The members of the Board of Management are supported by management committees at the business division level and in Savings Banks Sales. DekaBank also actively incorporates the expertise of the Sparkassen-Finanzgruppe into its decision-making process via three advisory boards, which advise the Board of Management, as well as several sales committees. In accordance with the provisions of the Investment Act, the supervisory boards of the German capital investment companies include external members in addition to members of the Bank's Board of Management.

The close cooperation of the Board of Management and Administrative Board is based on trust. The Administrative Board of DekaBank has 26 members in accordance with the Bank's statutes. They include representatives from the savings banks, employee representatives as well as representatives from the Bundesvereinigung der kommunalen Spitzenverbände (German Federal Association of Central Municipal Organisations), who act in an advisory capacity. The work of the Administrative Board is performed in part by the full Board and in part by various expert committees. To this end, the Administrative Board has formed the General Committee, the Audit Committee and the Credit Committee. The German Federal Minister of Finance has the general governmental supervisory responsibility.

Organisational structure and locations

The business of DekaBank is managed from its head office in Frankfurt/Main. All of the Group's capital investment and associate companies in Germany are also based there, with the exception of WestInvest Gesellschaft für Investmentfonds mbH, which is located in Düsseldorf, and ETFlab Investment GmbH, which is situated in Munich and is responsible for the development, issue, marketing and management of exchange traded funds (ETF) for institutional investors. Important subsidiaries in international financial centres include DekaBank Deutsche Girozentrale Luxembourg S.A. in Luxembourg 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%). Fund accounting in Germany and some areas of fund administration are 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. In close cooperation with the Deutscher Sparkassen- und Giroverband (DSGV), DKC Deka Kommunal Consult GmbH (DekaBank 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 all-round solutions for savings bank customers and institutional investors 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, around 4.4 million custody clients in Germany, Luxembourg and Switzerland use the DekaBank's fund-based products. Alongside the funds and structured investment solutions of the DekaBank Group, the product range also comprises products from selected international cooperation partners.

For private investors, AMK offers a wide range of funds, which facilitate investments in equity, bond, money market and mixed funds as well as capital protected funds and any combination of these, partly in conjunction with guaranteed, discount and bonus structures.

With our fund-based asset management products, including Deka-Vermögenskonzept launched in 2011, we offer comprehensive investment options for private investors. This investment approach enables investors to implement their own strategies in line with their individual risk/reward profile.

While retail sales of mutual funds are processed by the savings banks, DekaBank acquires and manages business with institutional investors directly. AMK manages 377 special funds and 67 advisory/management mandates on behalf of institutional investors. In addition, there are 101 master fund 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).

As at year-end 2011, the AMK fund assets (according to BVI) amounted to €138.9bn, making the business division the third largest provider of mutual securities funds in the German market.

AMK's services encompass all aspects of the investment custody business, including portfolio management, and contract and order processing. Fund accounting and some areas of fund administration are pooled in Dealis Fund

Operations GmbH, a joint venture with Allianz Global Investors. Dealis is the largest provider of fund administration services in the German market and also maintains operations in Luxembourg via a subsidiary.

Asset Management Property business division (AMI)

With AMI, DekaBank is one of the top ten property asset managers in Europe. The business division offers property investment products with different risk/reward profiles for private and institutional investors. In addition, customised financing of commercial property is offered to professional property investors. Product quality is decisively enhanced by providing the best possible access to the properties required for investment products and the investors who buy and sell them. The parallel activities in fund business and financing ensure optimum access to the markets that are important for the business division.

In the investment fund business, the focus is on the purchase, further development and sale of marketable commercial property in liquid markets. Subsidiary Deka Immobilien GmbH is responsible for the acquisition, sale and management of property worldwide as well as all other property-related services for all of the funds. The two capital investment companies, WestInvest Gesellschaft für Investmentfonds mbH and Deka Immobilien Investment GmbH, focus exclusively on active fund management.

The product range in the investment fund business includes three open-ended mutual property funds for private customers, thirteen special funds, two individual property funds for institutional customers as well as two real estate private 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 regard to open-ended mutual property funds, DekaBank is the market leader in Germany. Total fund assets (according to BVI) amounted to €22.7bn as at year-end 2011. The assets held in the property funds are invested in 447 properties in 25 different countries.

Real Estate Lending has significantly broader access to markets and investors as compared to the fund business and therefore considerably strengthens the expertise and commercial basis of the business division. The joint approach in fund business and financing provides a competitive advantage over most competitors in the market. Financing activities are concentrated on the same markets, business partners and types of property which are also relevant to fund business.

Corporates & Markets business division (C&M)

The capital market activities carried out within Corporates & Markets (Markets sub-division) support DekaBank's core business and are also available to the savings banks and other institutional investors. The product range is continually adjusted to meet the requirements of the Group's own investment fund companies and the savings banks.

C&M supplies the Sparkassen-Finanzgruppe with liquidity as required via the Credits and Markets sub-divisions, with the Treasury sub-division ensuring the Group's overall funding and liquidity investment. Treasury also centrally manages any interest rate, liquidity and currency risks to which the Group is exposed. In addition, C&M makes a contribution to expanding the product range in Asset Management with its production of index funds (ETFs).

Markets sub-division

Markets is the central product and infrastructure provider for DekaBank's customers in terms of capital market business. This sub-division is also responsible for product development, particularly for the Group's own asset managers and the Sparkassen-Finanzgruppe. To ensure full utilisation of the platform, services are also made available to selected clients outside the Sparkassen-Finanzgruppe, mainly banks, insurance companies and pension funds.

The Short Term Products (STP) unit lends securities from the portfolios of the Group's own investment companies, the Bank itself, the savings banks and portfolios of other customers, and uses the liquidity raised to create additional income for the securities providers and DekaBank. The Group's liquidity generated in this way can also be used at any time for the DekaBank Group's own funds or to supply alliance partners. This highlights the major importance of these activities for DekaBank's business model, especially in times of difficult capital market conditions. Structuring & Trading (S&T) is DekaBank's centre of competence for trading and structuring capital market products as well as for structured issuance business. The comprehensive range of business activities centre on customer-oriented cash flow based business with DekaBank's asset managers, the savings banks and other customers. In commission business, equities, bonds and stock exchange traded derivatives are bought and sold on behalf of customers. Key customers here also include the Group's own funds and the savings banks. In addition, Markets manages business related to exchange traded funds on behalf of institutional investors. Subsidiary ETFlab is responsible for developing, issuing, marketing and managing products while Market Making sets the prices of the DekaBank subsidiary's ETFs and those of other capital investment companies.

Credits sub-division

The lending business (Credits sub-division) focuses on financing infrastructure measures, means of transport (ships and aircraft) and government-backed trade finance. The Credits sub-division concentrates on loans that are suitable for the capital markets and which can be passed on to other banks or institutional investors. The sub-division is also the central point of contact for savings bank funding.

Treasury sub-division

The Treasury sub-division performs the typical tasks of a bank's treasury department and is thus responsible for refinancing and liquidity investments as well as for managing all of the Group's interest rate, liquidity and currency risks.

Savings Banks Sales and Corporate Centres

AMK and AMI are closely integrated with (Retail) Savings Banks Sales, for which a particular Board of Management member is responsible within DekaBank. The division is divided into the following sales units with regional responsibility: Sales North/East, Sales Mid, Sales South and Marketing/Sales Management. Retail Sales 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 the sales strategy and sales control as well as product and sales management and marketing. Institutional Sales and Private Banking Sales are assigned to the Board of Management member responsible for the AMK business division.

The business divisions and Sales unit are supported by a total of nine Corporate Centres (Strategy & Communication, Group Audit, Legal Affairs, Human Resources, Group Risk, Finance, IT/Organisation, Group COO and the Credit Risk Office) with clearly defined core competencies and business objectives as well as management targets and indicators. They function at the cross-divisional level and ensure smooth business operations.

Non-core business

Business activities that are being discontinued have been pooled in non-core business since 2009. This segment manages securitisation transactions and loans that no longer form part of the core business. The relevant portfolios are reduced while safeguarding assets. In addition, non-core business includes the portfolio of the Public Finance unit, which was discontinued in 2009 and previously formed a sub-division within the C&M business division.

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.

Following the savings banks’ acquisition of 100% of the shares, DekaBank is anchored more firmly than ever in the Sparkassen-Finanzgruppe as the central asset manager. The business model is geared to comprehensively cover all the requirements of the savings banks and their customers in asset management in an optimal and cost-effective manner by providing a full range of products and services in fund business coupled with supporting capital market activities. This integrated business model was once again affirmed within the scope of savings banks’ full acquisition of all of the shares in DekaBank.

Integrated value creation in the DekaBank Group

It is DekaBank’s aim to create added value for the Sparkassen-Finanzgruppe on a sustained basis. All of DekaBank’s activities are designed to accomplish this, and all of the Group’s business units combine their competence and skills to work towards achieving this mission. The mission sets the standard for employees in all of the Group units to continually improve their performance while ensuring customer focus and an integrated, comprehensive approach.

The corresponding corporate strategy, which focuses on the requirements of the savings banks, promotes intensive cooperation between the three business divisions and the sales units. Based on this cooperation, the DekaBank Group develops its product range in close alignment with key capital and property market trends, broadens access to asset classes and responds to various risk profiles and investment strategies with customised products.

Ultimately, the integration of fund-based business, lending and capital market business generates attractive income for DekaBank’s shareholders. In close cooperation with the savings banks, the regional savings banks associations and the DSGV, DekaBank continues the targeted development of its range of products and services. As a centre of competence for securities and property business and a reliable contributor of income, the Bank’s aim is to add further value and benefit for the Sparkassen-Finanzgruppe.

Joint strategic campaigns

DekaBank identifies unconditionally with the objectives of the savings banks and actively brings its expertise into their projects. One example is ensuring high advisory quality at the local level.

Repositioning of securities business in the private customer segment

Together with the DSGV, the regional savings banks and giro associations and the savings banks, DekaBank intends to reposition securities as an important element in the formation of assets by German households, in order to permanently strengthen the securities business of the savings banks. The securities and property funds are particularly important, given that they ensure risk diversification. The large-scale project of the DSGV, “Securities Business in the Sparkassen-Finanzgruppe – New Challenges for Advisory Services” (“Wertpapiergeschäft in der Sparkassen-Finanzgruppe – neue Herausforderungen für die Beratung”), is aimed at the nationwide expansion of securities business in Germany. At the same time, the project is set to ensure that the securities business will be more firmly established at the customer adviser level within the Sparkassen-Finanzgruppe.

The specialised expertise of savings banks advisers is the central lever in this strategy. Their knowledge and experience in the securities business will make the difference in terms of whether customers who have been unsettled by the financial market crisis and the turmoil in the capital markets can once again be convinced of the benefits of fund-based products. To provide stronger support for advisers in their communication with end customers, plans are in place for specifically trained DekaBank sales managers to work locally on-site, and in some locations this is already the case. The development of additional sales capacities for fund sales in branch-based and customer business is underway, including expanded training and continuing professional development opportunities. Furthermore, the measures comprise the target group specific relaunch of our online information platform for the savings banks (DekaNet), which, in the future, will offer individual management functions with regard to the range of products and resources.

In terms of products, the comprehensive advisory approach focuses on Deka-Vermögenskonzept launched in the first quarter of 2011. The individual portfolio strategies it offers, coupled with system-generated advisory alerts, make Deka-Vermögenskonzept a key element of structured securities advising within the savings banks financing concept (see page 24).

Sales concept for Private Banking

DekaBank is also involved in a nationwide DSGV project in Germany, which centres on developing a sales concept for Private Banking. The market segment of affluent private customers is rapidly growing, and DekaBank aims to establish itself as a premium partner of the savings banks. In the course of a pilot phase started in the previous year, key success factors were defined that are now being implemented. They include the precise alignment with core advisory topics, such as generation and endowment management, and establishing customised advisory and investment processes as well as appropriate market positioning and the further development of the in-house private banking structure. Highly-trained private banking sales managers will act as the central contact for the savings banks when it comes to services, investment solutions and end customer advice. In 2011, additional savings banks opted for a close cooperation with DekaBank in the private banking segment.

As a result of the takeover of the private banking business of LBBW Luxembourg S.A. and WestLB International S.A. by DekaBank Deutsche Girozentrale Luxembourg S.A. with effect from 1 January 2011, we also acquired affluent customers and assets under management in the finance centre of Luxembourg for the savings banks organisation. For the most part, the adjustments resulting from the takeover were implemented during the year under review.

Group-wide optimisation processes

Alongside cross-entity campaigns in the Sparkassen-Finanzgruppe, DekaBank pays particular attention to ensuring that the efficiency of its services, processes and IT architecture is continually enhanced and that they are carefully aligned with customer requirements. By investing in seamless workflows and a high-performance banking platform, we secure our long-term competitiveness and create a broader scope for action.

In the reporting year, we pursued the continuous and sustainable Lean Transformation process that was launched in the previous year. With this project, DekaBank is taking on a pioneering role in the German banking sector. The project is designed to align services more closely to customer requirements and offer customers the specific service that adds the most value for them. This comprehensive approach is also geared to enhancing processes, promoting closer cooperation, expanding the specialised skills of employees, establishing new development prospects and creating sufficient flexibility and scope for action within the various DekaBank teams. To this end, Lean Transformation not only delivers higher quality and better service for customers, but also facilitates the further development and flexibility of the corporate culture as well as the achievement of DekaBank’s mission. Following the sixth Lean Transformation wave, we have achieved a potential increase in efficiency totalling around 20%, which has already been taken into account in the current forecasts. By the end of 2011, almost 30% of the employees were involved in this further development campaign.

The measures taken to completely overhaul the IT environment have been combined in a programme called the IT mission. By 2014, the complete IT architecture will be migrated to a flexible, controllable application environment, which ensures high system stability and faster adaptation to new market trends at appropriate operating costs. Within the scope of implementing the IT mission, DekaBank has intensified its cooperation with Finanz Informatik GmbH & Co. KG, the central IT service provider of the Sparkassen-Finanzgruppe. The technological solutions developed as part of this cooperation will also be used by other financial institutions within the Sparkassen-Finanzgruppe where possible.

Strategy in the business divisions

Strategy in the AMK business division

The strategy in the AMK business division focuses on strengthening its market position in partnership with the savings banks, which are the Bank’s exclusive retail sales partners and at the same time the most important institutional customers. To this end, AMK continually develops its range of products and advisory services on the basis of the various customer requirements. Specific advisory options and tailored product solutions are to be made available to customers, which are customised to meet their individual requirements with respect to their income and asset situation, risk profile and investment objectives.

In retail business, AMK and the savings banks jointly target customer groups whose income and wealth varies considerably. By developing specific products, services and advisory concepts, the customer approach is increasingly differentiated and fine-tuned in line with requirements. Across the board, the current focus is on safety-oriented solutions that safeguard the capital invested, partly owing to the current volatility in the capital markets.

For retail customers, AMK bases its range of mutual funds on the savings banks financing concept with the basic product, fund-linked asset management, which is positioned nationwide, and the funds of funds. In this connection, the product range was realigned in 2011 by closing some funds, merging others on a tax-neutral basis and launching some new funds to respond to changing customer requirements and market conditions. The focus of sales continues to be on straightforward products that are easy to understand and provide a high level of security while offering attractive yield opportunities at the same time. The introduction of a new fund of funds concept is scheduled for 2012 as are new fund savings plan models (see page 37). Following the launch in December 2011 of three sustainable funds which only require a low minimum investment, AMK has also made it easier for private investors to access attractive sustainable investment options. Mixed funds remain another focal point. They invest in various asset classes, such as equities and fixed-interest securities and use a wide range of instruments, including direct investments, funds and derivatives. This makes it possible to align each fund portfolio in different market phases in order to exploit the most attractive investment opportunities.

In close cooperation with Savings Banks Sales, AMK developed Deka-Vermögenskonzept primarily for affluent customers. The new service was initially offered in the first quarter of 2011 (see page 24) and makes professional, tailored asset management available to a broad array of customer groups, taking into account changes in investment objectives, life stage planning and risk affinity or aversion. Business with affluent customers of the savings banks with above-average wealth will be expanded with exclusive products and services as well as advisory support for the savings banks.

In institutional business, AMK intends to utilise the opportunities arising from its positioning as a full-service solution provider. Additional sales potential will be leveraged by offering new services.

For the savings banks' own investments, AMK continually develops the range of products and the required infrastructure in cooperation with the other business divisions and Institutional Sales. Regulatory changes necessitate new solutions, particularly in the special funds segment.

The aim of AMK is to integrate institutional customers of the savings banks more closely in the Sparkassen-Finanzgruppe by offering comprehensive, advice-centred service. This includes repositioning the range of products and services related to fund-based company savings plans.

Strategy in the AMI business division

The strategy in the AMI business division remains the same and is based on the effective combination of property fund business and property financing. The resources and expertise in commercial property developed over more than four decades are used to buy, sell and manage property as well as for the active management of the property loan portfolio. On the strength of direct access to international property investors in Germany and abroad, AMI ensures product quality and reliable sales and income contributions. The property segments involved (hotels, shopping centres, offices and logistics) and the regions are matched as closely as possible in property fund business and property financing. By using the same local expertise in representative offices and coordinating customer activities, significant synergies are leveraged within the business division in terms of costs, expertise, access and income. Hardly any other provider in the property investment segment can claim this kind of combined, broad and direct market access to important international property business partners.

Property fund business

With the exception of WestInvest ImmoValue, the open-ended mutual property funds are consistently geared to private investors. Rather than being growth-oriented, 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, particular care is taken to ensure balanced regional diversification and sustainability-related aspects, such as Green Building certification in particular. AMI also invests in modernisation to ensure the sustainability and marketability of its portfolio, increase letting performance on a sustained basis and enhance the reselling price, all of which generate a steady cash flow for fund investors. On a targeted basis, AMI will continue to channel funds received from institutional investors into products specifically launched for this group of customers. Sales of open-ended mutual property funds are managed on the basis of sales quotas, whose volume is determined by investment opportunities and the target liquidity ratio of the funds.

With this active portfolio management as well as the proven management of fund inflows and outflows, DekaBank was once again consistently present in the market with "open funds" in 2011. Stability of earnings for the funds remains the primary goal of fund management in a competitive environment that remains challenging.

Building on its position as market leader in private customer property funds, the business division is also driving forward the expansion of institutional business. In 2011, AMI therefore focused in particular on buying (smaller) properties which are ideally suited for the generally smaller institutional investment products. To supplement the existing funds, including the single-sector funds of the WestInvest TargetSelect fund family and alternative products such as the Deka Realkredit Klassik and Deka Infrastruktur credit funds, solutions offering additional investment vehicles for the savings banks and other institutional investors are developed and launched in the market.

Real Estate Lending

The strategic focus in Real Estate Lending (REL) remains unchanged: to finance commercial properties in the markets in which the investment companies of the AMI business division also invest. In the current market environment, REL is focusing on countries in which the Bank maintains its own representative offices, with the aim of increasing synergies and reducing risks. New business is only conducted in relation to property types for which the business division has many years of expertise. In other words, we only finance properties which we would also buy for our funds.

This kind of property financing is regularly passed on pro rata to savings banks, banks and/or funds. The role of Real Estate Lending in this respect is continually expanded in the interests of the business division as a whole. The REL sub-division is also responsible for financing open-ended property funds governed by German law.

Strategy in the C&M business division

The C&M business division views itself as a service provider and product supplier for the Group's own investment companies and the savings banks. In addition, C&M supplements DekaBank's range of products and services with ETFs and structured issues. Another important role as part of C&M's responsibilities is to raise, invest and supply liquidity for the Group's own funds and the savings banks.

Markets sub-division

In the course of the regular review of the product and service range, the Markets sub-division was realigned in 2011. The realignment was based on changed customer needs, market conditions and the imminent new regulatory requirements. Markets, the unit responsible for customer capital market business in the true sense of the term, had a successful year in 2011 and is well positioned for the future.

As a product and infrastructure provider in the capital market business, the Markets sub-division's role encompasses the development of capital market products and serving as a liquidity centre, credit intermediary and execution platform for the DekaBank Group and the Sparkassen-Finanzgruppe. Based on its traditionally strong position in commission business, Markets has evolved into an integrated provider of customised structured products for managing performance and hedging risks.

In its capacity as competent business partner, the Structuring & Trading unit (S&T) meets the customers' demand for tailored products relating to guaranteed capital funds. Building on the strong foundation of traditional business activities in customer-oriented cash flow based trading, the unit's extensive trading and structuring expertise is put to use on behalf of customers to develop solutions that offer maximum (customer) benefit and value and generate income for the DekaBank Group. Structured multi asset solutions are used in this context for professional risk hedging and straightforward representation of asset classes in funds and the savings banks. The expansion of its bond and derivatives based business enables C&M to offer institutional customers convincing fixed-income solutions from under one roof. One key element is to expand the structuring expertise in all asset classes. In addition, S&T is the centre of competence for structured issuing business. Alongside traditional origination/syndication of third party issuance business, the first activities related to DekaBank's own structured issues were implemented in 2011. Upon the request of the savings banks, activities in this segment can be increased anytime.

The Markets sub-division is also the DekaBank Group's central platform for the short-term supply of liquidity to the Sparkassen-Finanzgruppe. In addition to tasks related to traditional money transactions, Short Term Products focuses on generating and supplying liquidity to the Group's own funds and the savings banks: for the funds, by borrowing securities from the portfolios of the investment funds, and for the savings banks, from the Depot A (A securities account). With a broad range of traditional repo/lending transactions, including total return/equity swaps, Markets generates additional income through securities lending.

In commission business with shares, bonds and exchange traded derivatives, which is handled by the Brokerage business unit, Markets has been a longstanding active and established partner for the Group's own funds, the savings banks and also for some other institutional investors.

Furthermore, C&M is the provider and market maker of ETFs in the Sparkassen-Finanzgruppe, partly via its subsidiary ETFlab. The strategic range of index funds is continually further developed, thereby enabling institutional customers to implement their investment strategies even more accurately and differentiated. In the past year, ETFs based on French government bonds and euro-denominated corporate bonds were issued in the non-banking sector. ETFlab will continue to pursue its conservative product philosophy, which benefits investors. Wherever possible, ETFlab fully replicates the underlying indices. This ensures that the investment funds always reflect the relevant benchmark with the greatest possible accuracy.

Credits sub-division

Credits focuses its activities on funding the savings banks and granting loans in a few selected segments of the lending business.

In the lending business, we have many decades of experience in the segments of infrastructure loans, the financing of means of transport (ships and aircraft) and government-backed trade finance. Since 2011, new transactions with standard conservative structures are only entered into if an assessment is available prior to closing the deal which affirms that partial placement with other investors is a highly probable option. The focus is on transactions that are suitable for the capital markets.

Treasury sub-division

Treasury is responsible for funding and liquidity management throughout the Group. This sub-division also manages the Group's interest rate and currency risks on an operational basis.

Strategy in Savings Banks Sales

Savings Banks Sales is the link between Asset Management and the customer advisers in the savings banks. The unit supports customer advisers in convincing private customers of the quality of our customised products and solutions, for example during adviser and customer events.

Savings Banks Sales also actively supports the implementation of DSGV-wide campaigns to promote securities business and expand private banking activities. In 2011, we strengthened the sales team, particularly at the regional and local level, by making experienced advisers available on-site in the branches. On the product side, the current focus is on campaigns to promote Deka-Vermögenskonzept, which is supplemented by the new Deka basic investments and fund-based saving plans.

Strategy in non-core business

In non-core business, the Bank's strategy is still based on reducing the portfolio volume while safeguarding assets at the same time. The assets (securities and loans) are regularly analysed in terms of their value and expected cash flow. Depending on market prospects, potential write-ups and risk parameters – including probability of default and spread fluctuations – hold or sell decisions are regularly taken in respect of all assets and any previous decisions already made are reviewed. This approach is in line with DekaBank's value-oriented long-term strategy.

Sustainable business policy

DekaBank has adopted a sustainability strategy to reconcile the economic, environmental and social aspects of its business. The strategy is based on DekaBank's mission, which reflects our commitment to a sustainable business policy. 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.

Our sustainability-related activities extend across four pillars: environmental management/sustainable banking, sustainable HR management, sustainable banking products and social responsibility. Details regarding our principles and current developments are provided in the sustainability report, which is published every year as an integral component of the annual report.

Risk and profit management at the DekaBank Group

To achieve our goal of sustainable and value-oriented growth, the Bank's overall management prioritises measures, optimally allocates resources and consistently meets its targets. With this approach, DekaBank also aims to ensure an appropriate risk/reward ratio in the long term as well as an attractive return on equity. We use non-financial and financial performance indicators to measure our progress in this respect. Comprehensive reporting on 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 indicators in Asset Management (AMK and AMI business divisions) and Savings Banks Sales are

- Net sales as the performance indicator of sales success. This figure essentially results from the total of direct sales of mutual and special funds of the DekaBank Group, fund-based asset management, the funds of our cooperation partners and the master funds and advisory/management mandates. Sales generated through our 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 fund, third party fund and liquidity portions of fund-based asset management and the advisory/ management mandates. For comparative purposes within the scope of the BVI statistics, we continue to use the fund assets according to the BVI.

- Fund performance and the fund ratings to measure product quality.

- The ratio of intra-alliance business (share of our products in total fund sales of the savings banks) to measure our acceptance in the Sparkassen-Finanzgruppe and the payments to the alliance partners, which in combination with the economic result reflect 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 volume of existing managed property and the rental income. Additional key indicators measure our success in Real Estate Lending, for example the risk and income structure in new business and the share of loans syndicated to alliance partners and institutional investors.

In the C&M business division, along with financial performance indicators, key indicators which facilitate the measurement of the quality of processes and our risk management are especially relevant. These involve, for example, the use of equity and risk capital, compliance with and utilisation of risk limits, the structure of the loan portfolio and the quality of the trading portfolio.

We also establish staff-related key indicators, such as the age structure of our workforce (see page 31), and develop indicators to measure the 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 that have an impact on profit or loss (see page 44). In addition, DekaBank strives to continually increase its corporate value by achieving the best possible economic results under the prevailing risk conditions at any given time.

The "economic result" indicator is based on the IFRS accounting standard and, along with net income before tax, includes changes to the revaluation reserve before tax as well as the interest rate and currency related valuation result from original lending and issuance business. 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 which are relevant to the management's assessment of the profit situation are taken into account. In particular, net income before tax excludes both changes in the revaluation reserve, which reflects the valuation result for securities in the available for sale (afs) category, and the interest rate-induced valuation result from hedged underlying transactions (loans and own issues) outside of hedge accounting under IAS 39.

The economic result has already been used in external reporting at the Group and business division level for several years. Consequently, DekaBank complies with the provisions of IFRS 8 (Operating Segments), according to which internal management data must be transferred to segment reporting (management approach). The valuation and reporting differences with regard to the consolidated financial statements under IFRS are clearly explained in note [2], where they are reported in the reconciliation column relating to Group net income before tax. 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 an assessment of the development of the corporate value of DekaBank as part of medium-term planning. To this extent, the management concept is also linked to DekaBank's business strategy, which focuses on sustainability (see page 13).

Other financial performance indicators are return on equity and the cost/income ratio. In addition to the key indicators concerning risk-bearing capacity, 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 in line with regulatory requirements.

Economic environment

Economic conditions noticeably deteriorated in the course of 2011. After a strong start to the year, the global economy lost considerable momentum. The main reason for this was greater uncertainty among companies and consumers in view of the serious risk to growth resulting from the unresolved national debt crisis in the eurozone. The threat of another recession in Europe also slowed down growth in the emerging economies.

With regard to the capital markets, the national debt crisis continued to cause major uncertainty in some European countries, which was reflected by substantial volatility in almost all the markets. Massive valuation losses on government bonds, which in the past were considered to be safe investments, fuelled fears of a second financial market crisis, and consequently, further measures were taken to stabilise the financial system. The renewed turmoil in the capital markets meant that investors' risk affinity decreased further, after already being at a low level since the financial market crisis. As a result, demand for investment funds was once again restrained and the downward trend in demand from private investors consolidated throughout the sector. At the same time, more stringent regulatory requirements led to higher costs and restricted the leeway available to Asset Management.

The national debt crisis in the eurozone

The European national debt crisis has continually worsened since summer 2011. Alongside Greece, Ireland and Portugal, Italy and Spain were also subject to a downgrade in the second half of the year. France and Austria followed at the beginning of 2012. Risk premiums on many euro-denominated government bonds rocketed. Given that no permanent political solution had been found for dealing with the debt issue, even strong eurozone countries, such as Germany, were concerned about their top rating by the end of 2011.

It took some time for decisions to be made with respect to containing the crisis. Finally, in October 2011, the EU countries at least agreed on the financial leveraging of the European Financial Stability Facility (EFSF), which is worth €440bn. After Greece and Ireland received loans via the EFSF in 2010 and Portugal also required financial assistance from the European Union and the International Monetary Fund (IMF) in April 2011, concerns were voiced that the bailout fund may not dispose of sufficient funds.

In addition, the eurozone countries and the IMF committed to providing additional aid to Greece totalling €109bn in July. In October, another rescue package of €130bn was agreed on, involving a haircut of 50% for private bond investors. The aim of this rescue package was to prevent the crisis from spreading.

Almost all of the eurozone countries failed to meet their consolidation targets, although the shortfall of the different countries varied significantly. Ireland is on target, whereas Greece still has a very long way to go. In most cases, the shortfall was not due to a lack of austerity efforts, but rather to the fact that the economy was weaker than expected.

Despite concerns with respect to independence and monetary stability, the European Central Bank (ECB) supported the rescue measures by buying government bonds from the affected eurozone countries, as it had also done in 2010. Overall, the ECB held government securities amounting to approximately €220bn at the end of 2011. The controversy regarding the possible joint issuance of bonds by eurozone countries (eurobonds) continued. Such bonds would enable the PIIGS countries (Portugal, Italy, Ireland, Greece and Spain) to borrow at more favourable rates in the capital markets. However, they would also result in an increase in interest rates for the stronger eurozone countries. In the course of the year, the difference in interest rates between German government bonds and bonds from the crisis-stricken countries continually widened.

The decline in the value of European government bonds also had an adverse impact on banks. In response to the ongoing European national debt crisis, the EU Council stipulated a minimum requirement for core tier 1 capital ratio of 9%, taking into account market value losses on government financing activities. This requirement must be fulfilled from mid-2012 onwards. However, in the European Banking Authority's (EBA) second ad-hoc stress test for banks, conducted in November 2011, many banks fell short of this figure. These banks also included German financial institutions which had passed the regular EBA stress test conducted in July 2011. This fact prompted the initiative at year-end for passing a second Financial Market Stabilisation Act, which comprises reactivating the Financial Market Stabilisation Fund (SoFFin). In its wake, banks have been aiming to increase their core capital through targeted measures while reducing their risk-weighted assets at the same time, for example by restricting their lending activities. However, the opportunities for an immediate sale of bank loans to remove them from the balance sheet are relatively limited. A credit crunch is not expected to result from these measures, at least not in the strong, northern European areas of the monetary union. The picture looks very different in the highly indebted member states.

Overall economic trends

Global economic growth slowed down in 2011 in the context of the debt crises in Europe and the USA. In particular, the unresolved situation in Europe unsettled companies and consumers, with both groups holding back in terms of investment and consumption. Stringent austerity measures have already seen some national economies in the eurozone slide into recession. However, provided that the eurozone debt crisis does not deteriorate into a full-blown banking crisis, the phase of weak global economic growth should soon be overcome. Although the catastrophic earthquake in Japan and the conflict in the Middle East had very little impact on global economic growth, they triggered temporary outflows from funds.

In the USA, the economic outlook stabilised, despite national debt remaining at a high level and the country's rating being downgraded. Falling inflation rates, especially in the wake of declining commodities prices, and a relative easing in the labour market meant that households were more optimistic again towards the end of the year. At 1.7%, the gross domestic product (GDP) just outperformed growth in the eurozone. However, this is far from a return to dynamic growth (Fig. 1).

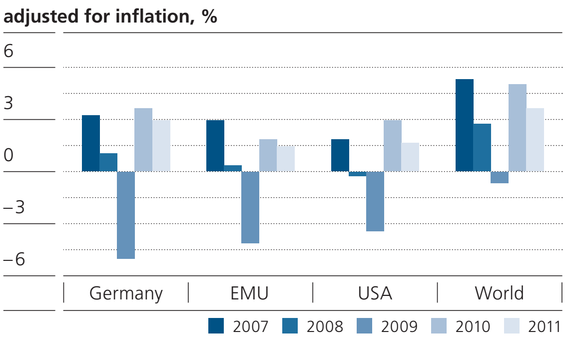
Most of the emerging markets are experiencing a phase of slightly weaker economic conditions in view of the unfavourable global factors, although growth remains at a high level. This is a positive situation, given that inflationary pressure has reduced considerably. It provides the central banks with more room to manoeuvre and takes the pressure off consumers.

Adversely affected by the debt crisis, the eurozone slid into a light recession. Overall, economic growth in the eurozone was down to 1.5%. In particular, Greece, Portugal, Spain and Italy reco rded very negative growth rates in the second half of the year.

With economic growth of 3.0%, Germany confirmed its role as Europe's economic powerhouse. Nevertheless, the country's exports were negatively impacted by weaker demand from its European neighbours and China. As a result, companies became increasingly restrained with regard to planned investments. However, domestic demand remained robust on the strength of stability in the labour market.

Growth in GDP 2007–2011

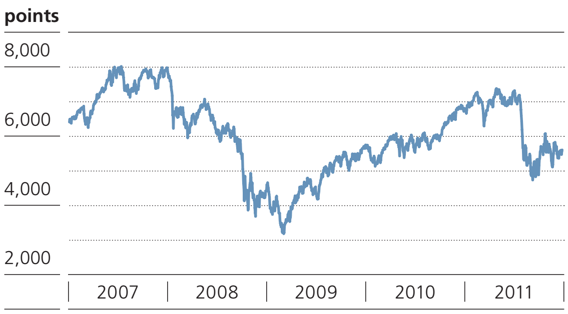
(Fig. 1)



Source: Destatis, Eurostat, BEA, IWF

Performance of the DAX 2007–2011

(Fig. 2)



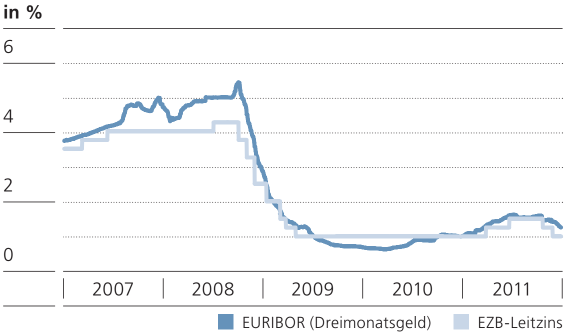
Source: Bloomberg

Trends in capital markets

Uncertainty among investors resulted in substantial volatility in the capital markets accompanied by high demand for safe investment options. The very jittery European equity markets in particular plummeted in the second half of the year (Fig. 2). Key valuation figures are now significantly below their long-term averages, measured in terms of price/earnings ratios, which reflects that an economic slowdown has already been priced in. Exploiting the recovery potential will also depend on whether the loss of trust in the stability of the financial markets and the European Monetary Union is restored. The fact that there is doubt about the general willingness on the part of some of the countries severely affected by the debt crisis to implement reforms currently indicates otherwise.

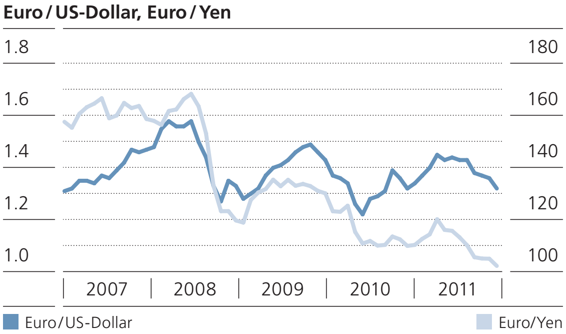
After the ECB increased key interest rates for the eurozone in two steps to 1.5% in the first half of 2011, it reversed the increases again in the second half of the year in view of the gloomy economic outlook. The 3-month EURIBOR essentially followed the key interest rate development and gradually dropped again in the second half of the year (Fig. 3).

EURIBOR and eurozone key interest rate 2007 – 2011
(Fig. 3)



Source: EZB, Bloomberg

Euro/US dollar and Euro/Yen exchange rate 2007 – 2011
(Fig. 4)



Source: Bloomberg

In the bond markets, a two-class society progressively emerged. Government bonds from Germany and the USA were in demand as a safe haven, whereas investors took flight from bonds issued by eurozone crisis countries. Despite the active countermeasures taken by the ECB, risk premiums on Greek, Italian and Spanish bonds were at record highs, whereas the interest on German government securities remained very low. The threat of a downgrade has not changed the situation in principle. The flight from risky investments also resulted in a rise in spreads on emerging market bonds.

Companies in the affected eurozone countries were also forced to pay higher risk premiums on their bonds. This equally applied to banks with high exposure levels in peripheral countries, which faced extensive losses. In addition, the requirement to improve equity ratios reduced the prospects of future profits. Issuing activities virtually came to a halt.

Covered bonds were also adversely impacted by the volatile markets and only attracted few investors. The ECB, which intends to support the market with €40bn up to October 2012, initially also held back.

In view of the global slowdown in economic growth, commodities prices fell in the year under review. The price of soft commodities and industrial metals declined, in particular. Conversely, there was no change in the demand for gold as a crisis currency and the price of the precious metal continued to climb. However, none of the other precious metals profited from the crisis. Investors speculating on commodities were also far more cautious in their approach. Since April 2011, they have been reducing their net long positions on a considerable scale. Although the continuing high demand for commodities from the emerging markets is likely to support the price of energy resources and industrial metals, the low point has probably yet to come in terms of commodity prices.

The development of the debt crisis is also reflected by exchange rate developments. In the first half of 2011, the euro rose sharply against the US dollar. However, in the second half of the year, the markets were predominantly sceptical about the future of the single currency and the exchange rate dropped again, returning to the level at the start of the year (Fig. 4). The Swiss franc became so popular as a crisis currency in the second half of the year that the Swiss central bank decided to set a minimum exchange rate of CHF 1.20 against the euro.

Trends in property markets

The financial market crisis also impacted on the European property markets during the reporting year. Reflecting the economic development, the gap between northern and southern European property markets continued to widen. The markets in southern Europe were worst hit by the effect of the crisis. Conversely, Germany remained a safe haven for investors. From our point of view, a stable base had largely been established by mid-2011 with regard to yields in Europe. Compared with the previous year, the investment volume rose once again. However, the flight into core assets continues.

Sales of space and growth in rents accelerated somewhat throughout Europe in the year under review. Growth in rents in Europe was supported by demand in the sound national economies, which mirrored economic developments, and a sharp decline in the volume of completed buildings. London, Warsaw and some locations in Germany, including Berlin, Hamburg, Stuttgart and Munich, led the way. Rental markets in Germany and Scandinavia were increasingly driven by expansion, whereas expiring tenancy agreements and the consolidation of space dominated in Spain and Portugal – markets affected by the debt burden and stringent austerity measures. These markets faced rental losses. The vacancy rate across Europe decreased marginally due to the ongoing restraint in terms of project developments. Frankfurt/Main, Prague and London's West End recorded the most substantial reduction.

In the investment market, the upturn already observed in 2010 continued during the reporting year. Almost 50% of the transaction volume was linked to office property. However, investors' risk aversion remained at a high level, and the focus continued to be on core markets with sound prospects. Investors appreciated the stability of the German property market, where almost half of total sales were attributable to six locations: Frankfurt/Main, Berlin, Düsseldorf, Hamburg, Cologne and Munich. In addition, France and the Scandinavian countries, where national debt is low and the economic outlook robust, were among the biggest winners. Investors are only very gradually starting to consider properties in higher risk categories for their portfolios. Buyers from the USA were the most active cross-border investors.

In the current year, the worsening debt crisis as well as emerging economic concerns have resulted in deteriorating financing conditions and a slight increase in gross loan margins. This trend was least marked in Germany as compared with the rest of Europe, a fact driven by competition. In contrast, the crisis in Spain was reflected in extremely high margins and low credit lines.

Top yields stagnated throughout Europe towards mid-year. Lisbon was the first location to record a renewed rise in yields. In terms of top yields, only those for London's West End are currently significantly below the 5-year average. In addition, the capital value of office space is the highest in London compared with all other European countries and far ahead of Paris.

High-quality retail property once again proved extremely resilient in the crisis, with demand in Europe at a high level in 2011, as was also the case in the previous year. However, demand was concentrated on the best inner city locations and well-established shopping centres. Secondary sites and poorly located shopping centres recorded higher vacancy rates and a decline in rents.

The European logistics markets continued to recover, especially at the start of the year. In the first half of 2011, sales remained at a high level, particularly in Germany and the Central and Eastern European countries, where domestic demand was high. However, the debt crisis and deteriorating economic outlook induced many companies to adopt a more cautious approach in the third quarter of the year. Many companies put their expansion plans on hold for the time being. Compared with the pre-crisis level, rent levels have remained significantly lower in most locations.

In the USA, the low volume of new construction produced a positive effect. During the current year, the volume of completed new buildings fell to its lowest level since 1994, which resulted in a further reduction in vacancy rates. The increase in demand for class A office space was particularly noticeable in the second quarter of 2011. New York, Houston, Seattle and Dallas recorded significant growth, which was mainly driven by the technology, biotechnology and energy sectors as well as by financial services providers. There was very little movement in terms of rents in the class A segment. Vacancy rates remained at a high level, preventing an increase in rents on a wide scale. San Francisco was the only exception and recorded a significant rise.

In the year under review, the transaction volume regarding commercial property rose sharply in the US market. All market segments recorded appreciable increases as a result of improved financing conditions and the hunt for yield opportunities in a low interest rate environment. Overall, investors continued to concentrate on core assets in top locations, such as New York and Washington DC. Due to the limited supply in the premium segment, class A property yields remained under constant pressure. However, the values in the leading markets are still far from the pre-crisis low recorded in 2007.

In Asia, demand for office space proved surprisingly robust in the reporting year. Demand from multinational and domestic companies rose sharply in the Asian office markets. Premium properties were particularly sought after here as well. Hong Kong, Shanghai and Beijing recorded the most significant increase in rents. This trend was countered by a renewed steep rise in the volume of new construction in some cities. In some locations, the rate of expansion has therefore already slowed down. In Tokyo and Seoul, rents decreased or stagnated. Yet, demand in Japan's capital did not slump to the expected extent in the wake of the earthquake and nuclear accidents.

A new rent cycle commenced in Australia in 2011. Against the backdrop of strong economic growth, the expansion of domestic companies was reflected in continuous high demand in the Australian office markets. At the same time, declining supply in the best city centre locations resulted in a reduction of rental incentives and therefore a slight increase in rents. The major share of this year's volume of new construction is already pre-let.

Investor attitudes and sector development

Uncertainty among investors overall had a negative impact on sales of mutual fund units. The investment statistics published by the Bundesverband Investment und Asset Management (BVI) reported considerable funds outflows from mutual securities funds in almost all fund groups for 2011. In 2010, the funds collected €19.4bn. However, the net funds inflow was down to €–16.6bn in the reporting year.

The substantial funds outflows from bond funds, totalling €5.8bn, clearly reflected the crisis of confidence in the bond market. The volume of equity and mixed funds, which recorded a sharp increase in the first half of the year, diminished in the course of 2011 – especially during the last few months of the year. In addition to funds outflows of €2.3bn in each case, a marked negative performance was a contributing factor. In the past year, both fund groups had recorded strong growth. Other losers in 2011 included capital protected funds, hybrid funds and alternative investment funds. Open-ended property funds were the only funds to buck the trend, achieving an increase of €1.2bn, which was largely attributable to DekaBank's retail funds.

At €45.3bn, special funds for institutional investors recorded lower net funds inflows than in the previous year (€71.1bn).

Despite the turmoil in the equity market, the number of shareholders and fund unit holders increased to 8.7 million in 2011 (previous year: 8.2 million), according to data from the Deutsches Aktieninstitut (German Equities Institute, DAI). This equates to a share of 13.4% of the population. However, the increase was mainly attributable to a rise in the number of direct shareholders, up by 0.7 million to 4.1 million. The number of fund unit holders was only slightly up by 0.2 million to 6.2 million.

Regulatory provisions

New information provisions for investment products, more stringent qualitative requirements for advisors and longer holding periods for open-ended mutual property funds are the cornerstones of the Gesetz zur Stärkung des Anlegerschutzes und Verbesserung der Funktionsfähigkeit des Kapitalmarkts (German Act on Strengthening Investor Protection and Improving the Functionality of the Capital Market), which came into force in April 2011. For DekaBank, the new regulations stipulated in the Investment Act are of particular importance. To date, it was possible to return fund units held in open-ended mutual property funds at any time. However, no later than by the start of 2013, a 1-year notice period will apply, and additionally for new investors, a 2-year initial holding period – however, only above the allowance of €30 thousand per calendar half year. The new regulation is aimed at increasing the stability of funds and tailoring them more precisely to the needs of private investors. DekaBank already took measures some time ago to reduce the proportion of institutional investors in its open-ended mutual property funds. At year-end 2011, the share of these investors was down to 7.3%.

Another new regulation stipulated by the act which has affected DekaBank was the introduction of the Key Investor Document (KID) for investment funds on 1 July 2011. It provides investors with key information that is relevant for their decision about objectives and investment policy, the risk and earnings profile, fees and the historical performance of the relevant investment fund in a standardised format. DekaBank promptly implemented all of the documentation requirements resulting from the act, for example those regarding fund units bought and redeemed.

The Gesetz zur Restrukturierung und geordneten Abwicklung von Kreditinstituten, zur Errichtung eines Restrukturierungsfonds für Kreditinstitute und zur Verlängerung der Verjährungsfrist der aktienrechtlichen Organhaftung (German Restructuring Act, law pertaining to the orderly restructuring and winding-up of banks, for the establishment of a restructuring fund for financial institutions and for the extension of the limitation period of management liability under stock corporation law), which came into force at the turn of the year 2010/2011, was substantiated by means of a statutory instrument in July 2011.

The restructuring fund has a target volume of €70bn and is funded by contributions from the banking industry. The statutory instrument specifies a contribution ranging from 0.2 to 0.4 basis points of the relevant financial institution's liabilities (excluding defined non-contribution based components). The contribution is tiered according to the amount of liabilities. In addition, a contribution of 0.0015 basis points is payable on the nominal volume of forward transactions. A limit of reasonableness of 20% of the respective bank's annual net income applies.

Business development and profit performance in the DekaBank Group

Overall assessment by the Board of Management

2011 was a difficult year for the financial sector. Pressure on the capital markets worsened, triggered by the escalating national debt crisis in the eurozone, and also had an increasingly negative impact on DekaBank's business. Consequently, the economic result was only slightly positive in the second half of the year. Despite the latest turmoil in the markets, strong growth in the first half of 2011 meant that we achieved a satisfactory economic result for the year in the amount of €383.1m. As expected, the previous year's record figure, which included high revaluations and a noteworthy positive balance of risk provisions, was not matched.

The fact that the overall figure fell short of the target by around 22% was mainly the result of capital market related external influencing factors. Foremost among these was the trend in the bond markets. Marked volatility, widening credit spreads and downgraded issuer ratings produced a very negative valuation result for bond positions relating to debtors in the affected eurozone countries. This mainly concerned Treasury bond positions. In addition to the market-driven valuation discounts, comprehensive specific valuation allowances were required for a total of four bond issues from Greek and Portuguese debtors. A further factor was the significantly lower valuation result from other capital market credit products, which was also an immediate result of market developments. Increasingly precarious overall economic conditions additionally necessitated provisions for loan losses, which were approximately 30% above the expected amount. Since the development in net commission income and net interest income was steadier than anticipated and administrative expenses remained below budget, despite higher write-downs, a considerable portion of the negative valuation result was compensated.

However, developments in fund business were not satisfactory. Fund sales fell short of expectations by a substantial margin. Like our major competitors, we also recorded net funds outflows. Although the sales launch of Deka-Vermögenskonzept was positive overall, we and our sales partners were not able to convince a sufficiently high number of increasingly securities-averse end customers of the benefits of actively managed investment funds. Together with the DSGV and the savings banks, we are working towards reviving the future-oriented securities business and ensuring that it will account for an appropriate share in the financial asset formation of German households. Institutional business remains an additional focus, as we have not yet sufficiently leveraged the considerable existing potential in that segment. With regard to open-ended mutual property funds, we intend to consolidate our longstanding position as the market leader and contribute to stabilising the sector situation, which is still subject to considerable pressure. In this respect, we made further progress in 2011, a year of upheaval in the markets.

At an annual average of 75.4% (previous year: 77.5%), the ratio of intra-alliance business, or the share of our products in total fund sales of the sales partners, declined further in the year under review. The ongoing expansion of our sales activities, which is aimed at providing local support in securities business for savings banks advisers, can and is countering this trend. It is coupled with the further development of our product range and measures taken to enhance the performance of our funds. At year-end, 35.1% of our equity and bond funds had an above-average rating (end of 2010: 34.4%).

In step with the ratio of intra-alliance business, payments to the savings banks as alliance partners are set to rise again gradually, after decreasing in the year under review due to the adverse market and sales situation. Until such time as we achieve our target ratio of 12% core tier 1 capital, we and our shareholders will focus attention on ensuring a good balance between appropriate distribution and strengthening core capital through profit retention.

Ratings

DekaBank's core tier 1 capital ratio (excluding silent capital contributions, which will no longer be eligible for inclusion in the long term) decreased in the reporting year from 10.7% to 9.4% following the change in the shareholder structure. On the basis of the profit retention policy agreed on with the shareholders, the ratio is to be increased to 12% in the coming years. This will also secure the DekaBank ratings, which are relevant to the business model.

Both Moody's and Standard & Poor's assessed the change in the shareholder structure in spring 2011 as generally positive. At the time, Moody's affirmed the Aa2 rating. Within the scope of a method-based review of systemic support in the public banking sector, Moody's adjusted the ratings of various banks in November. As part of this process, the long-term unsecured debt rating of DekaBank was also downgraded by one notch from Aa2 to Aa3. Prompted by the crisis in the eurozone and the observed disruptions in the financial markets, Moody's initiated a review process throughout Europe in mid-February 2012. In this context, DekaBank's issuer rating was put on review for downgrade. The short-term unsecured debt rating was affirmed as P-1.

The Standard & Poor's ratings remain unchanged at A (long-term) and A-1 (short-term). The temporary negative outlook for long-term debt, which related to the reduced capital resources following the change in the shareholder structure, was upgraded again to stable in December 2011. We view the overall strong ratings as positive confirmation of our business model, which is anchored in the Sparkassen-Finanzgruppe, and of DekaBank's liquidity, funding and risk policy.

As in the past, DekaBank convincingly passed the EBA stress test conducted in 2011.

Profit performance in the DekaBank

In the past financial year, DekaBank once again achieved a satisfactory result. The total of net interest and net commission income, trading profit or loss and other operating income amounted to €1,275m. Net interest income and net income from equity investments decreased by €56m to €561m (previous year: €617m). Compared with the previous year's figure, net interest income declined by 14% to €223m. Net income from equity investments also fell by 5% year-on-year to €338m as a result of lower profit distributions and profit transfers. Net commission income increased slightly and at €192m was just up on the previous year's figure of €190m. With a positive trading result of €184m (previous year: €139m) the item ordinary operating income was €24m higher than in the previous year and totalled €1,275m. Other operating income amounted to €337m (previous year: €305m). Intra-Group services once again accounted for the major share of this item. In the past financial year, operating expenses changed by 3%, declining slightly to €691m. Operating expenses including depreciation increased by 18% to €394m. In net terms, this produced a result before risk of €584m, which was up €48m on the previous year. The balance of the valuation result from lending business, securities business and equity investmnets totalled €-281m in the past financial year (previous year: €182m). The negative valuation result reflects the rise in provisions for loan losses compared with the previous year, in particular as a result of a higher allocation to specific valuation allowances. The valuation result was also adversely affected by impairments in securities business. After deduction of tax on profits and the allocation to the fund for general banking risks to strengthen core capital, DekaBank achieved operating profit after tax of €125m (Fig. 5).

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

€m	2011	2010	Change	
Net interest income and net income from equity investments	561	617	−56	−9.1 %
Net commission income	192	190	2	1.1 %
Trading result	184	139	45	32.4 %
General administrative expenses	631	605	26	4.3 %
Risk provision/valuation	−281	182	−463	−254.4 %
Income tax	45	83	−38	−5.8 %
Net income after tax	**125**	**86**	39	45.3 %

Business development in the AMK business division

The hoped-for moderate revival of the fund business did not materialise in 2011. Against the backdrop of the unresolved national debt crisis in the eurozone, political unrest in the Middle East and increased fear of a recession, market turmoil worsened, unsettling many investors who then steered clear of securities investments. At the same time, competition intensified once again due to ETFs and certificates as well as money on call and fixed-term deposits. For the third year in a row, net sales in the AMK business division were therefore negative and, in line with the sector trend, remained below the previous year's figure. There was a significant decline in the volume of assets under management, which was driven by both sales and prices. Nevertheless, AMK created a strong starting position for 2012 with the well-received launch of Deka-Vermögenskonzept, product campaigns for guaranteed and sustainable funds and by strengthening local sales activities.

Net sales performance and assets under management

AMK's net sales performance decreased from €–0.8bn in the previous year to €–6.8bn in 2011 (Fig. 6). Key factors included weaker direct sales of mutual securities fund units and, in contrast to the previous year, net funds outflows from special funds and mandates for institutional customers.

AMK sales performance *(Fig. 6)*

€m	2011	2010
Direct sales mutual funds	−5,326	−3,553
Fund-based asset management	−1,498	−1,534
Mutual funds and fund-based asset management	**−6,824**	**−5,087**
Special funds and mandates	−2	4,294
Net sales AMK	**−6,826**	**−793**
For information purposes:		
Net funds inflow AMK (according to BVI)	**−7,759**	**−3,066**

With regard to mutual securities funds, including fund-based asset management, net sales were down to €–6.8bn (previous year: €–5.1bn). Despite the growing market turbulence during the second half of the year, the sales situation improved somewhat from mid-year onwards. Decisive factors here included limiting net funds outflows from bond funds (including near-money market bond funds), which were increasingly sought-after again as a safe haven in the wake of massive share price losses. Compared with the previous year, the volume of net funds outflows from bond funds was reduced. This also reflects our intensive portfolio management, which contributed to limiting outflows. These developments were largely offset by the poorer sales of mixed funds, which had benefited from the sales launch of the Deka-Wertkonzept product series in the previous year. Nonetheless, net sales performance in this segment bucked the trend and was slightly positive. Capital protected funds recorded higher net funds outflows as compared with the previous year. Our equity funds also failed to match the previous year's figures in terms of the levels recorded for the full year. However, the situation stabilised somewhat in the second half of the year.

In fund-based asset management, net sales amounted to €–1.5bn and were approximately at the previous year's level (€–1.5bn). Higher funds outflows from the Sparkassen-DynamikDepot were partially compensated by a pleasing level of net investments in the Deka-Vermögenskonzept product (€0.7bn).

Sales of special securities funds as well as master funds and advisory/management mandates were approximately balanced in the reporting year. Unlike the previous year, which closed with a positive figure of €4.3bn, demand from the savings banks and institutional customers for our products was subdued as a result of the market conditions. Funds inflows into master funds decreased to €0.9bn, despite customer satisfaction remaining high in respect of the quality of our products and advisory services. Advisory/management mandates made a sales contribution of €0.4bn in the year under review. The figure for net sales of special funds (€–1.3bn), which were balanced in the previous year, was therefore virtually compensated.

Assets under management in the AMK business division decreased by 9.0% to €126.9bn compared with the level at year-end 2010 (€139.5bn); (Fig. 7). With regard to mutual funds and fund-based asset management, the volume of assets under management was down from €90.4bn to €78.6bn. In addition to the negative level of net funds inflow, price losses in equity and mixed funds particularly impacted on the figure. Bond funds (including near-money market bond funds) accounted for approximately 44% of the fund volume at the end of 2011 (previous year: 42%), while the share of equity funds fell from around 25% to 22%. Mixed funds accounted for almost 13% of assets under management (previous year: approximately 11%). With regard to special funds and mandates, the trend in assets under management was largely steady. A moderate volume of funds outflows was offset by a positive performance, especially in the special funds segment.

Assets under Management AMK *(Fig. 7)*

€m	31.12.2011	31.12.2010	Change	
Equity funds	17,420	22,183	−4,763	−21.5 %
Capital protected funds	4,769	6,085	−1,316	−21.6 %
Bond funds [1]	34,570	38,056	−3,486	−9.2 %
Money market funds [1]	244	278	−34	−12.2 %
Mixed funds	10,033	9,501	532	5.6 %
Other mutual funds	3,788	4,563	−775	−17.0 %
Owned mutual funds	**70,824**	**80,666**	−9,842	−12.2 %
Partner funds, third party funds/liquidity in fund-based asset management	5,886	7,505	−1,619	−21.6 %
Partner funds from direct sales	1,882	2,181	−299	−13.7 %
Mutual funds and fund-based asset management	**78,592**	**90,352**	−11,760	−13.0 %
Special securities funds	31,991	33,155	−1,164	−3.5 %
Advisory/management mandates	7,670	7,568	102	1.3 %
Advisory from master funds	8,642	8,433	209	2.5 %
Special funds and mandates [2]	**48,303**	**49,156**	−853	−1.7 %
Assets under Management AMK	**126,895**	**139,508**	−12,613	−9.0 %
For information purposes:				
Fund assets – mutual funds AMK (according to BVI)	**89,634**	**103,890**	−14,256	−13.7 %
Fund assets – special funds AMK (according to BVI)	**49,272**	**49,962**	−690	−1.4 %

[1] Previously categorised as money market funds, investment funds have been assigned to a new BVI category since 1 July 2011. In accordance with the new classification, they are now reported as bond funds, with the exception of two funds which remain in the category of money market funds. The previous year's figure has been adjusted for better comparability.

[2] In the year under review, a new classification was applied in the wake of the merger of Deka FundMaster Investmentgesellschaft mbH and Deka Investment GmbH with regard to the assignment of institutional products to the assets under management item. The previous year's figure has been adjusted for better comparability.

Expanded product range

With the launch of Deka-Vermögenskonzept in February 2011, the AMK business division has made an individual, flexible and transparent solution available to the savings banks and their customers for structured investments in line with the savings banks financing concept. The offering represents the further development of fund-linked asset management and supplements it with advisory elements that ensure comprehensive customer advice and individual support in all market situations. Deka-Vermögenskonzept targets customers who wish to invest for a minimum of five years. Depending on individual preferences, customers select a dynamic or steady growth portfolio based on the ratio of equities included. Three optional portfolio strategies are also available, which offer the choices of loss limitation, capital preservation or profit preservation. If specified portfolio limits are exceeded, or the portfolio value falls below such limits, the IT-supported concept generates advisory alerts, which prompt advisers to arrange a meeting with the relevant customer.

In addition, the range of products relating to mixed funds and capital protected funds has been expanded. The Deka-Deutschland Balance mixed fund, which pursues a conservative strategy in accordance with customer preferences, was launched in December 2011. It combines investments in German shares and bonds. Similar to the extremely successful and multi award-winning Deka-Euroland Balance fund, investment decisions are computer-generated based on a technical model. This facilitates rapid response, even in phases of market turmoil.

The new Deka-EuroGarant Strategie guaranteed fund concept, which has been available since September 2011, provides a particularly steady performance thanks to the daily management of the equity ratio in the portfolio on the basis of a volatility-oriented eurozone share index. The fund also guarantees repayment of the capital invested at the end of the six-year investment period.

Fund performance and rating

As at year-end 2011, a total of 35.1% of our funds had above-average ratings from Morningstar over a 3-year to 10-year period. This was approximately the same percentage as in the previous year (34.4%). 20.0% of our equity funds outperformed their relevant benchmark, as did 46.5% of our bond funds.

In performance comparisons, the AMK business division once again achieved good rankings. At this year's €uro Fund Awards, the Deka-ConvergenceAktien CF was distinguished as the "Best Eastern Europe Equity Fund over 5 Years" for the second year in a row. The Deka-Wandelanleihen CF was the winner in the category of "Best Bond Fund Convertible Bonds over 5 Years" and the Deka-Schweiz fund came in first place in the "Equity Fund Switzerland" category over a 1-year period.

The Deka-ConvergenceAktien CF, which won a prize at the €uro Fund Awards, was also a winner at the Feri Euro Ratings 2011, coming away with the coveted award in the "Central/Eastern Europe Equity Fund" category for Germany, Austria and Switzerland.

At the Lipper Fund Awards, the fund was also the winner in its category for the third consecutive time – just like the Deka-Euroland Balance CF and Deka-EuropaBond TF. The Deka-Renten: Euro 3-7 CF A received an award for the first time in the "Euro Bond Funds Medium Term" category.

Deka-Euroland Balance also impressed the German consumer testing organisation Stiftung Warentest. In the December issue of the finanztest magazine, the fund ranked first place in the category of mixed funds with a risk level similar to fixed-income securities or low-risk mixed funds, giving it the accolade of "significantly outperformed the market".

The quality of our fund management, asset management and portfolio administration was also rewarded. In the 2011 Extel survey, an annual survey of analysts conducted by Thomson Reuters, Deka Investment ranked in third place among 100 investment companies in Europe. Deka Investment placed first in the category of German asset managers. In the 2011 FondsConsult survey, DekaBank's Asset Management came in first place in the overall ranking for the first time. The deciding factors were a positive assessment of the risk/reward profile and certain features, including the cost structure and reporting. The Bank's strong risk management in the conservative and balanced segments received particular praise. DekaBank Luxembourg was successful in the asset manager test conducted by the Fuchsbriefe information service, coming in third place, just slightly behind the two first place winners. Dealis, the joint venture of DekaBank and Allianz Global Investors for fund administration, was awarded by investment and portfolio management software services provider SimCorp for best practice in growth management.

Business development in the AMI business division

The AMI business division performed well under persistently difficult market and sector conditions. The sales strategy agreed on with the savings bank supported this development, as did the consistent return and liquidity management of the funds. Our open-ended mutual property funds continuously remained open and achieved a further increase in fund assets, while other providers were again forced to suspend acceptance of returned fund units due to liquidity problems or even had to remove their funds from the market. According to the BVI statistics for 2011, the net funds inflow for our open-ended mutual property funds outstripped the sector average. We therefore further strengthened our position as the market leader in mutual property funds.

The management of sales via limited sales quotas and the associated coordinated buying and selling policy proved their worth again in the reporting year. Even though the sales quotas were not fully utilised this year, the liquidity quotas stayed within the target range. After temporary funds outflows prompted by the earthquake and nuclear disaster in Japan as well as the subsequent fund closure of a renowned competitor, moderate net inflows were achieved again as of mid-year.

The letting ratio rose slightly over the course of the year, despite the modest increase in vacancy rates; this reflected the time-delayed effect of the downturn in the economic environment resulting from the national debt crisis.

Development in institutional business was predominantly positive, in large part due to the successful efforts in property purchasing in 2011.

The slight decline in the financing portfolio in property finance in conjunction with the thriving new business was mainly attributed to brisk external placement activity, successful restructuring and significant repayments. In light of the business model pursued in this sub-division, this performance is very pleasing.

Net sales performance and assets under management

Given the strained sector environment, AMI achieved very satisfactory net sales of €1.0bn, although the level was down on the previous year's figure of €1.7bn (Fig. 8). A substantial share was attributed to the fixed and limited sales quotas of open-ended mutual property funds, which were agreed on with the savings banks. However, because of the exceptional situation in spring, the quotas had not been utilised in full by the year-end. Deka-ImmobilienEuropa was particularly successful. In contrast, the temporary outflows following the events in Japan in spring were most pronounced in the global-oriented funds. Direct sales of retail funds totalled €0.7bn and were down on the figure for the previous year (€1.5bn).

AMI sales performance *(Fig. 8)*

€m	2011	2010
Mutual property funds	732	1,472
Property funds of funds	–6	–11
Special funds (including credit funds)	200	222
Individual property funds	39	18
Net sales AMI	**965**	**1,701**
of which to institutional investors	369	486
For information purposes:		
Net funds inflow AMI (according to BVI)	**914**	**1.670**

In institutional property fund business, the open-ended property fund WestInvest ImmoValue, which is available for the savings banks' own investments, and the TargetSelect series attracted net funds of €205m, thereby falling short of the previous year's figure (€334m) for market-related reasons. With net sales of €233m, the special and individual funds, which operate with smaller funds volumes, were able to build on the previous year's figure (€199m).

Compared with year-end 2010 (€23.2bn), assets under management in the AMI business division rose by 3.9% to €24.1bn (Fig. 10). In addition to sales, this was mainly due to the performance of the funds. The total distribution amount of our property funds stood at €624m in the reporting year (previous year: €646m). Of the assets under management, approximately 85% (previous year: around 86%) was attributable to open-ended mutual property funds and 11% (previous year: about 10%) to special funds.

Assets under Management AMI *(Fig. 9)*

€m	31.12.2011	31.12.2010	Change	
Mutual property funds	20,529	19,996	533	2.7%
Property funds of funds	89	94	–5	–5.3%
Special funds (including credit funds)	2,646	2,324	322	13.9%
Individual property funds [1]	836	776	60	7.7%
Assets under Management AMI	**24,100**	**23,190**	910	3.9%
For information purposes:				
Fund assets AMI (according to BVI)	**22,666**	**21,848**	818	3.7%

[1] As a result of a change in the assessment basis for the administration fee on individual property funds (as of 2011 total purchase price payments), the previous year's figure was adjusted to improve comparability.

Our funds used the available financial leeway to secure contracts for the purchase of 25 properties with a value of €1.0bn (previous year: €2.4bn). This once again made Deka Immobilien, which handled all the transactions, one of the major property investors worldwide in 2011. Furthermore, Deka Immobilien sold 14 properties from the funds with a volume totalling €0.3bn. The transaction volume therefore dropped overall from €3.2bn to €1.3bn, while the number of transactions remained essentially unchanged. This was also due to the business policy decision taken at the beginning of financial year 2011 to substantially step up acquisitions for institutional funds.

Acquisitions focused especially on certified green buildings, such as the "BIZ ZWEI" office building in Vienna, which was brought into the WestInvest ImmoValue open-ended mutual property fund. In addition, we increased investments in the properties in our portfolio, particularly with regard to energy efficiency, in order to secure the basis for a stable property performance over the long term. One such example is the Poseidon Haus in Frankfurt/Main, which, following extensive modernisation, is set to receive a gold certificate in accordance with the international sustainability standard LEED (Leadership in Energy and Environmental Design).

Fund performance and rating

Our open-ended mutual property funds achieved an average volume-weighted yield of 2.4% in the past year, thereby outperforming the competitors. Despite the challenging market conditions, the funds consequently matched the level of the previous year (2.4%). In relation to the benchmark, the Deka-ImmobilienGlobal, Deka-ImmobilienEuropa and WestInvest ImmoValue funds occupied top positions again in the reporting year.

In rating comparisons as well, the stability of our open-ended mutual property funds was also convincing. In November 2011, Deka-ImmobilienGlobal won the "Scope Investment Award" as the best global fund for private investors for the third time in a row. The very high letting ratio, security-oriented fund strategy and rapid implementation of the German Investor Protection Act (Anlegerschutzgesetz) were highlighted in particular. DekaBank's open-ended mutual property funds had already scored well in the Scope rating in May. Scope rated WestInvest ImmoValue as "very good" quality; this rating ranked the fund in first place out of the 24 open-ended mutual property funds assessed. Deka-ImmobilienGlobal was upgraded from A to A+ as the second best fund for private investors. Scope again awarded good ratings for management quality to the DekaBank Group's property capital investment companies, with Deka Immobilien Investment GmbH placing second out of all the fund providers evaluated.

Real Estate Lending

In Real Estate Lending (REL), we continued to concentrate on markets, property types and business partners which are also relevant to our property funds. Our activities once more centred on risk-aware lending with a consistent focus on capital market viability. In addition, loans were granted to our own or third party property funds which are governed by the German Investment Act.

At €3.4bn, the volume of new business arranged in 2011 exceeded the previous year's figure (€2.5bn) and was acquired in markets in which Real Estate Lending has a local presence. This figure includes extensions in the amount of €0.3bn (previous year: €0.2bn). The volume of external placements totalled €1.5bn and was up on the previous year (€1.3bn). In the financial year, around one-third of the externally placed volume was granted to the Sparkassen-Finanzgruppe.

The gross loan volume amounted to €7.4bn by year-end 2011 (end of 2010: €7.5bn). Commercial property financing accounted for a share of €5.3bn and property fund financing for €1.6bn. The average rating in the portfolio improved by one notch on the previous year, primarily due to the low loan-to-value ratios in new business.

Business development in the C&M business division

The C&M division performed well in persistently difficult capital market conditions. However, due to adverse effects resulting from the national debt crisis, the economic result was significantly down on the previous year. The main factor here was the specific valuation allowances recognised for bonds in the Treasury portfolio and for loans in the Credits portfolio. In contrast, despite a market-related downturn, C&M's trading transactions were stable in the second half of the year and therefore surpassed the previous year's figure.

Business development in the C&M business division

Markets sub-division

Markets recorded a moderate rise in customer trading activities over the year as a whole. This development was primarily due to the relative robust demand of our customers in some segments during the first half of the year. The bond markets saw an upturn in trading activities and an increase in corporate bond issues. As a result, the levels in both customer trading with fixed-income securities and interest rate derivatives trading topped the previous year. In equities trading however, muted demand for actively and passively managed funds had a notable curbing effect.

Overall, business development in short term products (STP) was pleasing. In light of the increased refinancing options for financial institutions and the associated restricted availability of unsecured liquidity in particular, the demand for repo/lending products and their derivatives increased. Top quality securities especially benefited from this trend. The ECB's move towards a much more expansive monetary policy (interest rate cuts, more relaxed collateral criteria, long-term repo operations) boosted profit performance in the last quarter of the year, particularly by restoring liquidity and the demand for securities. As in previous years, STP made a major contribution to profit in Markets.

The consistent focus on core customers, greater effectiveness and optimisation of trading and risk selection approaches were reflected in a better than forecast result in the Structuring & Trading unit. In this regard, we not only further improved services for our customers, but also increased the result from these business activities. The expansion of customer-oriented structuring activities, in particular, contributed to this positive result for both our customers and DekaBank.

The volume in traditional commission business slightly exceeded the previous year; after small declines in equities and bonds in the first half of the year, the commission business benefited from increased market volatility as the year progressed.

Our subsidiary, ETFlab, further expanded the product range in ETFs in financial year 2011 with a focus on bond markets. Institutional customers, especially the savings banks, are thus able to implement their investment strategies more precisely on a differentiated basis with 21 equity and 19 bond ETFs. Furthermore, for the first time, ETFlab offered private investors the opportunity to take out savings plans on selected index funds. For this purpose, the company works together with selected online brokers.

Net sales amounted to €610m (previous year: €806m). Once again, we utilised the positive development to reduce our own portfolio of ETFlab fund units; the total volume therefore dropped from €5.0bn (end of 2010) to €3.5bn. The Bank's own portfolios decreased as a result to 18.6% (previous year: 38.7%) of the total volume. They are used to ensure a liquid and efficient market and support customers in complying with investment limits.

In an investor survey conducted by investment magazine Börse online, ETFlab was distinguished as best ETF provider of 2011, with a significant lead over other issuers, thereby defending its title from the previous year.

Credits sub-division

In the Credits sub-division, the gross loan volume declined as planned over the course of 2011 from €30.1bn to €26.8bn. The reduction of 11.0% is a result of our restraint in new business, which was down 24.2% on the previous year, as well as the expiry of contracts, early repayments by customers and the successful selling of loans to investors. The margin in the loan portfolio improved through the high quality of the new business and active portfolio management.

In financial year 2011, a major proportion of the assets were again attributable to refinancing for savings banks, although the volume decreased due to market-related reasons. As at the reporting date, our partners in the Sparkassen-Finanzgruppe accounted for a gross loan volume of €12.9bn (end of 2010: €15.5bn). Of this amount, €3.5bn (previous year: €4.4bn) related to other public sector borrowers in Germany, with loans to local authorities accounting for the greatest share. On the strength of this volume, DekaBank continues to play an important role for the long-term refinancing of savings banks.

At year-end 2011, the volume of the Deka-Infrastrukturkredit fund launched in 2009 already amounted to €118.6m. This fund includes portions of loans acquired and managed by Credits. The fund, which was designed as the Depot A (A securities account) of the savings banks, purchased loans from Credits again in the past year. Like the similar product Deka Realkredit Klassik, this fund is managed in the AMI business division.

Treasury sub-division

In the Treasury sub-division, the gross volume decreased by 6.1% to €20.0bn (end of 2010: €21.3bn). The net volume of the non-structured capital market credit products in the core business that are held by the Treasury sub-division totalled €4.3bn at year-end 2011, which corresponds to a decline of 21.8% on the previous year's figure (€5.5bn). The development in activities related to funding and strategic liquidity management was pleasing.

Business development in non-core business

In non-core business, we continued to pursue our strategy of reducing the portfolio while safeguarding assets at the same time. The gross loan volume of lending business and credit substitute transactions which do not represent core business amounted to €5.2bn as at the 2011 reporting date, which was 21.2% lower than a year ago (€6.6bn).

The largest decline was reported in the loan portfolio, which reduced from €3.8bn to €2.7bn during the year. In addition to the scheduled expiry of products, this was ascribed to selected sales as well as early repayments by counterparties. The portfolio of capital market credit products, predominantly securitisations, decreased by €0.4bn to €1.7bn. The volume attributable to the former Public Finance sub-division still amounts to €0.8bn (end of 2010: €0.8bn). As a result of the reduced volume, utilisation of the allocated risk capital was considerably lower than in the previous year.

Financial position and assets and liabilities

Balance sheet changes

The business volume at DekaBank increased in 2011 by around €1.0bn, or 0.7%, to €140.3bn (previous year: €139.3bn). Total assets rose by around €1.0bn, or 0.7%, from €131.9bn to €132.8bn. Amounts due from customers decreased by €1.2bn to €19.2bn and thus represented around 14% of total assets. Amounts due from banks fell by €1.4bn to €31.0bn (previous year: €32.4bn). This corresponded to a share of 23.3% of total assets (previous year: 24.6%). The item trading portfolio increased by €6.8bn to €65.7bn, corresponding to 49.5% of total assets.

Amounts due to customers rose to €20.1bn (previous year: €17.3bn). Amounts due to banks increased by €5.9bn to €20.8bn (previous year: €14.9bn). Securitised liabilities declined by €1.7bn to €33.0bn. The item trading portfolio totalled €53.4bn. As at the reporting date, on-balance sheet equity amounted to €1.2bn (previous year: €1.2bn) and accounted for 0.9% of the balance sheet total (previous year: 0.9%) (Fig. 10).

Balance sheet changes in the DekaBank *(Fig. 10)*

€m	31.12.2011	31.12.2010	Change	
Balance sheet total	**132,823**	**131,870**	953	0.7 %
Selected items on the assets side:				
Due from banks and customers	50,174	52,764	−2,590	−4.9 %
Bonds and other fixed interest securities	11,732	14,887	−3,155	−21.2 %
Trading portfolio	65,683	58,840	6,843	11.6 %
Selected items on the liabilities side:				
Due to banks and customers	40,886	32,220	8,666	26.9 %
Securitised liabilities	32,950	34,672	−1,722	−5.0 %
Trading portfolio	53,417	58,624	−5,207	−8.9 %

Change in regulatory capital

DekaBank's capital and reserves in accordance with the German Banking Act (KWG) amounted to approximately €3.4bn as at 31 December 2011, down on the previous year by €0.5bn. Core capital of €2.7bn accounts for the largest share of capital and reserves. Core capital also includes silent capital contributions (€0.6bn).

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 2011, both at the Bank and at the Group level (Fig. 11).

Breakdown of equity DekaBank *(Fig. 11)*

€m	31.12.2011	31.12.2010	Change
Core capital	2,664	3,086	−13.7 %
Supplementary capital	768	802	−4.2 %
Tier III capital	–	–	n.a.
Capital and reserves	**3,432**	**3,888**	−11.7 %
Default risks	16,113	17,926	−10.1 %
Market risk positions	6,221	5,381	15.6 %
Operational risks	1,170	1,110	5.4 %
%			Change %-Points
Core capital ratio (incl. market risk positions)	11.3	12.6	−1.3
Total capital ratio	14.6	15.9	−1.3

Liquidity and refinancing

Since the reporting year, DekaBank, as a capital market-oriented bank, has had to comply with the requirements for liquidity management under the MaRisk (Minimum Requirements for Risk Management), which was amended at the end of 2010. These stipulate that banks must have sufficient funds and highly liquid assets that are eligible as security for central bank borrowing, enabling them to bridge a short-term refinancing requirement in a stress scenario for a minimum of one week. For a period of at least one month, further components of the liquidity reserve may be used, provided that they can be turned into cash without significant loss in value and regulatory requirements are complied with. We have more than fulfilled both requirements.

The new MaRisk stipulations have been introduced in the context of the future liquidity and refinancing requirements under Basel III. We have been monitoring the corresponding ratios since financial year 2010. The liquidity coverage ratio (LCR) is aimed at ensuring that the highly liquid liquidity reserve corresponds, as a minimum, to the net outflow of cash in a stress period lasting 30 days. The time horizon for the net stable funding ratio (NSFR) is one year and is intended to lead to a balanced maturity structure for assets and liabilities. The ratios will be binding from the start of 2015 (LCR) and 2018 (NSFR) respectively.

DekaBank's liquidity ratio in accordance with the Liquidity Directive that is still mandatory in Germany stood at between 1.5 and 1.7 in the reporting year and exceeded the minimum requirement of 1.0 at all times.

Employees

Changes in the staff complement

The Group-wide optimisation process is reflected in the change in the number of employees, as is the inclusion of DekaBank in the strategic initiatives of the Sparkassen-Finanzgruppe. At year-end 2011, we had a staff complement of 3,957 employees, which corresponds to an increase of 7.4% as compared to year-end 2010 (3,683). The average number of positions filled, which was still falling in the previous year due to the Group-wide quality and process campaign (QPO), also rose and totalled 3,431 at the year-end (end of 2010: 3,174). We ended the QPO campaign ahead of schedule in mid-2011, as nearly all of the defined milestones had been achieved in full.

The takeover of the private customer business of LBBW Luxembourg and VM Bank had the biggest impact, with 125 employees transferring to our Luxembourg subsidiary at the start of the year as a result. The integration process following the takeover was successfully completed. We also employed additional staff in connection with the DekaBank IT mission and Lean Transformation programmes.

On average for the year, 84.5% (previous year: 85.3%) of the staff employed were in full-time posts. The average employee age was 40.6 years (previous year: 40.2 years).

Management culture and Lean Transformation

We continued the initiative launched in 2010 for the development, introduction and binding implementation of a uniform concept and understanding of management responsibility within DekaBank. Among other things, the aim is to describe management roles and tasks in detail, define the appropriate priorities in day-to-day business and make the measurement of leadership quality more precise using suitable instruments, indicators and ratios. The process, which is to be implemented in 2012, is set to result in a consistent yet flexible management system as well as a forward-looking management culture.

The continuous and sustained improvement and optimisation process (Lean Transformation) begun in the previous year was established even more firmly at the management level during the reporting year and interlinked with the management initiative. The overriding objective is to align DekaBank's entire value-creation chain even more closely with the benefits for the savings banks and their end customers.

Performance-related remuneration

We completed the revision of our remuneration system in response to the introduction of the Remuneration Ordinance for Institutions. A new employee and works agreement governing performance-related remuneration and the annual performance review took effect at the beginning of 2011. In addition to responding to the various regulatory requirements, the key objective was to develop the most uniform remuneration system possible for all companies within the DekaBank Group, so that the revised system can also be used by the subsidiaries. The new system is also flexible with regard to future adjustments and facilitates success and performance-based remuneration in line with market conditions. As part of the revision, we simplified the performance assessments and linked them more closely with the targeted development plans.

Since financial year 2009, we have been providing annual information regarding the remuneration structure on DekaBank's website. The remuneration report for 2011 is scheduled to be published in July 2012.

Training and personnel marketing

DekaBank meets the challenges posed by demographic change by implementing the concept of a life stage-based human resources (HR) policy, which also encompasses recruitment, training and personnel marketing.

Through our 12 to 18-month trainee programme, we are preparing 20 university graduates, who joined the Group in the reporting year, for their assignments in the different organisational units. From the outset, they work on demanding tasks and are able to network with each other and their mentors.

In addition to university marketing and recruiting, professional training is a key tool for attracting young talents. Along with investment fund sales staff and commercial staff for office communications, DekaBank trains students enrolled in the Applied Information Technology (BSc) dual study course in cooperation with the Baden-Wuerttemberg Cooperative State University. In 2011, 14 junior employees successfully completed their training in the DekaBank Group. Two students also graduated from the dual study course. In addition, we offer employees the opportunity to study for bachelor degrees alongside their job and support employees who are studying to earn a degree in investment management (Investmentfachwirt/Investmentfachwirtin) at the Frankfurt School of Finance & Management.

In the reporting year, DekaBank used its new personnel marketing campaign to position itself as an attractive employer, thereby raising its profile among new entrants of all ages and at different hierarchy levels: school pupils, secondary school and college students, university graduates, experienced professionals and executives. In advertisements, brochures, an image film and the redesigned career portal on the internet, DekaBank and its employees present the Bank as an attractive employer, thus emphasising the staff members' high degree of identification with the bank.

Life stage-based HR policy

Our concept of a life stage-based HR policy, which covers all phases, from career choice to retirement from professional life, once again served as a guideline for many measures related to health management, equal opportunities and family-friendly policy in the reporting year 2011. The concept is explained in detail in the annual sustainability report.

Our comprehensive health management system, which is integrated in the processes of the Bank, was summarised for the first time in a health report. The report documents targets, offerings and measures related to the four central pillars – movement, nutrition, mental health as well as medicine and prevention. These are supplemented by events, such as health days, at various locations.

DekaBank is committed to equal career opportunities for men and women and continually enhances the general conditions which enable employees to further improve their work-life balance. In the reporting year, for example, we supplemented our offering of crèche and daycare spaces with holiday childcare for school children. One of the objectives of the equal opportunities plan is to increase the proportion of women in management positions on a sustained basis. At the end of 2011, this proportion was 15.5% (previous year: 14.1%).

DekaBank's HR policy has been certified by "audit berufundfamilie" since 2005. The second re-audit was conducted in autumn 2011 in accordance with the new consolidation process, whereby a comprehensive evaluation of the family-friendly framework conditions and their establishment as part of the Bank's corporate culture is conducted, and then new targets are agreed on the basis of this evaluation. The "berufundfamilie" quality seal is under the auspices of the German Federal Minister of Family Affairs and the German Federal Minister of Economics and will be presented in spring 2012.

Post balance sheet events

No major developments of particular significance occurred after the 2011 balance sheet date.

Forecast report

The content and structure of the section containing the forecast report correspond to the relevant section 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

DekaBank continually develops its business strategy in close cooperation with its shareholders. The overriding aim is to add value for the savings banks on a sustained basis. We are confident that our current strategy (see pages 7 to 13) is ideally suited to achieving this goal in the next few years. Nevertheless, changes in the market situation and the requirements of the savings banks may entail new strategic campaigns, which in turn may result in adjustments to the existing, proven business model and the further development of our mission.

The strategic campaigns launched at DSGV level are of particular significance, with DekaBank involved in a central role. We expect the nationwide roll-out of the DSGV securities project to ensure the future-oriented repositioning of Asset Management within the Sparkassen-Finanzgruppe and, combined with this, firmer establishment, across the board, of DekaBank as the central asset manager.

The strategies of the various business divisions must be seen in the context of Group-wide measures. They are primarily aimed at the following:

- A differentiated approach to private customers of the savings banks based on a customised range of products and services for each income and wealth segment, including a comprehensive advisory and product concept for private banking.
- The ongoing development of specific solutions for investments by the savings banks for their own account, for example in the form of new Basel III compliant special fund concepts and DekaBank's own structured issues.
- The expansion of the range of products and services for institutional customers of the savings banks and other institutional clients, for example with the addition of solutions for fund-based company savings plans.
- The sustained improvement of our market position on the strength of prudent, performance-oriented management of funds in a volatile market environment.

The strategies are supplemented by cross-divisional measures to increase efficiency and modernise our technological banking platform.

With these measures, we are achieving our objective of comprehensively covering the investment banking requirements of the savings banks and their customers in an optimal and cost-efficient manner.

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, more so than ever in the current market environment.

The actual trends in the international capital, money and property markets, or in the DekaBank business divisions, may diverge markedly from our assumptions. For the purpose 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 (see page 39 et seq.) contains a summarised presentation of the DekaBank Group's risk position.

Anticipated external conditions

The western industrialised nations are continuing to pursue a consolidation course. This has also had an impact on the emerging economies, where growth slowed down perceptibly in the second half of 2011. In 2012, negative growth in the eurozone may push the global economy to the brink of recession.

Provided that the European financial system does not collapse, the situation should ease again in 2013. The medium-term outlook is also supported by the available leeway with regard to monetary and fiscal policy.

However, the European Monetary Union faces a stony path. The European Union will only continue to work in the future and overcome the current recession if it succeeds in implementing sweeping reforms in the EU crisis-ridden countries and at the Union level.

Perspectives on the European national debt crisis

Europe is only at the beginning in terms of dealing with the debt crisis. Although continuously new credit programmes provide assistance in the short term, the countries affected will need to find their own way back to a sustained growth course through their own reforms and further consolidation efforts. However, supporting and rescuing distressed countries requires long-term solutions instead of just interim financing.

The European Central Bank is unlikely to play a decisive role in permanent financing strategies. However, it is probable that it will continue to contribute to emergency financing during the crisis. By the end of 2012, the European Central Bank's government bond holdings are expected to increase to approximately €500bn.

There is a political will to preserve the monetary union. We therefore believe it is unlikely that the eurozone will disintegrate. The precarious situation with regard to financing European national budgets on the basis of bonds should stabilise in 2012. However, it will take longer to restore the markets' confidence in the European Monetary Union.

In the financial sector, a liquidity problem is emerging in the southern eurozone countries. For example, loan terms and conditions in Italy and Portugal have already risen to alarming levels, whereas they have remained within the normal range in countries such as Germany. If the debt crisis leads to another financial market crisis, highly indebted countries may no longer be able to support their banks.

Expected macro-economic trends

In view of the uncertainty in the financial markets and the recession we expect in Europe, our forecast for 2012 is weak global economic growth of 3.1%. However, we anticipate that the emerging markets will already be returning to a growth rate in line with their trend potential by mid-2012. In 2013, the continuing recovery in Europe is likely to boost global economic growth to 3.8%.

Overall, we expect 5.6% growth in GDP in the emerging markets for 2012 and an increase to 6.3% for 2013. Reduced price pressure provides the central banks with greater leeway in terms of monetary policy. This is likely to result in key interest rate cuts in Latin America and Asia, in particular, although these will probably be on a modest scale.

The US economy is already ahead of the eurozone countries with respect to necessary structural adjustments. In the course of this year, the banking and mortgage crisis has become less threatening, so that lending will have a chance of improving further in the coming two years. This reinforces the impact of expansionary monetary policy and therefore the cyclical forces driving an upturn. However, the end of the economic stimulus package resolved in 2009 has already been affecting dynamic growth since mid-2010. The existing imbalance in the national budget will necessitate further austerity measures over the next two years. Based on current legislation, the temporary tax cuts for private households will end in 2013. The extent of the resultant tax increases will depend on the outcome of the presidential elections at the end of 2012. All in all, we expect an increase in GDP of 2.1% for 2012 and 2.5% for 2013.

The European countries are facing a difficult year. Following considerable growth in the gross domestic product of 1.5% in 2011, the GDP is expected to contract by 0.4% in 2012. On the one hand, the current slowdown in world trade is adversely affecting the economy and on the other, the debt crisis will force the eurozone countries to implement austerity measures beyond 2012. This not only applies to the peripheral countries, but to the core eurozone countries as well. The labour market is also expected to have a dampening effect on private consumption. Already at a high level of approximately 10%, the unemployment rate is likely to increase further this year and only drop gradually again in 2013. Export-oriented countries in general and Germany in particular will probably benefit from an upturn in world trade in 2013, which will also provide a boost for the eurozone. However, at 0.8%, economic growth will remain below average in 2013 as well. On the whole, we expect northern Europe to record higher growth rates than southern Europe in the coming years.

Although Germany, which has been a major growth driver to date, will be able to dampen the European recession in the eurozone, the country will no longer be able to prevent it. Political uncertainty as a result of the debt crisis and poorer export prospects in the eurozone, the main sales region, are making German companies cautious with regard to any planned investments in 2012. However, on the back of wage and salary increases, the positive consumption trend is set to continue. Employment is also likely to remain at a high level, provided that the expected recession remains short-term and on a moderate level. The economic slowdown will probably continue to have a negative impact on exports in 2012, especially in the European market. In 2013, we expect improved general conditions, which are also likely to boost export activity. After marginal 0.1% growth in GDP for 2012, we assume a sharper rise in 2013 of 1.6%.

Europe still has inflation under control. Some eurozone countries are more likely to be at a risk for deflation. For 2012, we expect a decrease in the inflation rate to 2% for the eurozone, with rates only beginning to rise in 2013. We anticipate a drop in the inflation rate in Greece, Ireland, Spain and Portugal, and figures of around 2% in Germany. The ECB looks set to continue its very expansionary monetary policy over the next two years. In view of the current weakness of the economy and foreseeable decrease in the rate of inflation to well below 2% by the end of 2012, we assume that the ECB will continue to keep the key interest rate at the low level of 1.0% in spring.

Expected trends in the capital markets

The capital markets are subject to two major influencing factors. First, the financial markets are still experiencing the consequences of the 2008 financial market crisis, which means that interest rate levels have remained very low, as is the case with central bank rates, for example. Secondly, some extreme and severely fluctuating risk premiums are affecting prices in almost all securities segments. At the same time, political decisions and events have played an unusually significant role in the past two years and are set to remain important factors.

Only a few types of bonds can still be considered risk-free today. They include US government bonds (due to their reserve currency function) and German government bonds (since the assumption of debt within Europe will remain limited). The yields on these bonds will remain historically low, because this type of investment is expected to be particularly popular in view of the new liquidity requirements that apply to financial institutions. However, depending on the political situation, we expect an easing in the coming twelve months, during which yields on 10-year Bunds may climb back up to 2.4%.

For savers in Germany, money invested in safe investments will result in a negative outcome in this interest rate environment after tax deductions and given the rate of inflation. Accordingly, the dividend yield of shares remains superior to bonds. However, the bonds of the major countries will continue to be sought after as a safe haven. The dividend yield of the DAX amounted to almost 4% in 2011 and that of the EuroStoxx 50 was just shy of 5%, compared with a yield on 10-year Bunds of 2% to 3%. We do not expect this ratio to be reversed in the coming year. Volatility, which increased substantially in 2011, is likely to ease again to some extent. We expect the DAX to fluctuate between 6,500 and 7,500 points and the EuroStoxx 50 between 2,400 and 2,700.

Expected trends in the property markets

Lower demand for rented property, a rise in net initial yields and tighter financing conditions – these three factors will limit demand and the volume of activity in the European property markets over the coming year. In terms of a trend, property markets outside Europe will become more attractive.

At present, the markets are dominated by widespread uncertainty regarding economic and political developments in Europe. However, individual markets are affected in different ways by the effects of the financial and economic crisis. While Germany, France, the Benelux countries and Scandinavia will only face minor losses, we expect the peripheral eurozone countries and markets in southern Europe to experience an extended lean period. Nevertheless, there is no indication of a sharp fall in the rental markets, as seen in 2008 and 2009 after the collapse of Lehman Brothers.

The office rental market in Europe will see two different developments in 2012/2013. Vacancy rates are expected to rise slightly in the peripheral countries, with rents decreasing, whereas they will stagnate in the core countries. However, with the completion volume at a low level and the economy picking up again in subsequent years, this weakness is unlikely to represent a trend reversal, but is rather a dip triggered by the financial market crisis.

In view of the fact that financing options have become more difficult as a result of the worsening debt crisis and emerging economic concerns, developers are likely to continue to hold back on any speculative plans. Recently, new projects have predominantly been started in London.

This development has also impacted on the German office market. Due to the robust labour market and low volume of new construction in many markets, the office market will stabilise further in the coming year. At the same time, we expect a decline in demand. For 2012, we therefore anticipate stagnating office rents in Germany, and stagnating or slightly rising vacancy rates in some cases. For the forecast period from 2012 to 2013, German locations, with the exception of Frankfurt/Main, are in the upper mid-range in terms of earnings prospects as compared with other European countries.

Based on a historical comparison, growth in rents in the European retail markets is likely to be very moderate in the coming years. Growth potential is also very limited for the majority of the European logistics markets, given the expected economic trend in 2012.

The European investment markets will respond more extremely to the economic slowdown than the rental markets. From 2012 onwards, subdued rental expectations and the difficult financing conditions are set to result in a renewed rise in net initial yields. However, investors' marked risk aversion, the low interest rates and the confusing situation in the other investment classes will keep demand at a high level in the core area, thereby limiting the decline in prices in this segment. The flight into safety will remain a key investment motive.

Although we forecast a dip rather than slump in total income for 2012, we only expect a result above 1% in two of the 25 European markets we cover, namely in Warsaw and the City of London. Based on our calculations, Portuguese, Spanish and Italian locations will be faced with the most significant losses in terms of total income.

In the USA, the recovery of the office markets continues to be slow and varies by region. The labour market there is considered to be the main sore spot. New York and San Francisco as forerunners, followed by Boston, Dallas and Seattle, have good chances for sustained growth in rents due to their economic structure. It is likely that the recovery in the US investment market will remain well ahead of that in the US rental markets. The limited supply of class A office buildings may result in further price increases in this market segment.

In the other markets outside of Europe, we predict that locations in Latin America and Australia, including Santiago de Chile, Mexico City, Sydney and Perth, will have the best earnings prospects.

Expected business development and profit performance

In the scenario described above regarding the developments in the economic environment, we assume that the sales and market situation in Asset Management will remain weak. Due to the fact that market risks remain significant, a considerable increase in the level of interest in investment funds is not to be expected on the part of safety-oriented private investors. Consequently, DekaBank and the savings banks will need to join forces in their efforts on the product and sales side as well as in communications, in order to strengthen the role of investment funds in the formation of financial assets and pension provisions. On this basis and after recording a negative net sales performance in active asset management for three consecutive years, our target for the coming years is to expand assets under management and our market position on the strength of positive net sales. The minimum target for 2012 is to maintain the existing volume in Asset Management at a steady level, with growth in payments to the alliance partners.

We intend to increase the added value contribution of DekaBank to the savings banks over the next three years as compared to 2011 by using both levers – payments to alliance partners and the economic result. According to our forecast, income growth will be moderate due to various adverse factors. Growth in net commission income, which remains unchanged our most important income component, is likely to be heavily restricted in the current market environment. With regard to net interest income, it should be noted that in view of the challenging requirements in terms of its core capital ratio, DekaBank will pursue the stringent management of its lending business with the aim of limiting risk-weighted assets. As before, any new transactions in core business are only accepted subject to third party usability in the respective credit segment. In non-core business, we continue to adhere to our strategy of reducing the portfolio while safeguarding assets at the same time. The restricted loan volume coupled with the expectation of low market interest rates suggests that a decrease in net interest income is to be expected.

In response to the factors which are adversely affecting income, DekaBank is applying strict operating cost management while consistently implementing its IT mission. In addition, we aim to further expand customer trading activities with the associated positive impact on net financial income. However, economic instability and the capital market situation do not allow a reliable forecast with regard to either the trend in risk provisions or the valuation result from capital market credit products. Additional adverse factors may also result from the valuation of government bonds.

AMK business division

As part of the strategy for the business divisions (see page 9), AMK will strengthen its market position in cooperation with the savings banks. In the retail segment, the focus will be on solutions for a customer-specific approach to advisory services within the scope of the savings banks financing concept. On the product side, AMK is responding to investors' heightened need for safety during volatile market phases. Following the expansion of the product range of mixed funds and capital protected funds in 2011, plans are in place to launch a new fund of funds concept for basic investments, which will be based on different share ratios to reflect differentiated safety requirements and will also be suitable for saving capital-forming payments. Attractive models for fund-based savings plans will also promote the long-term formation of financial assets on the part of the savings banks' retail customers. At the same time, the sustainable funds launched at the end of 2011 respond to the stronger trend towards ethical investments. For affluent customers, in particular, the focus will be on Deka-Vermögenskonzept.

In alignment with the planning, institutional business will account for a considerable share of net sales. It will primarily centre on customised solutions for investments by the savings banks for own account, which will be developed together with the C&M business division.

Despite the difficult sales and market situation, AMK will once again make a significant contribution to the DekaBank Group's economic result. However, in view of the reduced assets under management in financial year 2011, a slight decrease in portfolio commission is to be expected. Substantial risks will arise if market developments differ from our forecast and net sales fall short of the forecast targets.

AMI business division

In financial year 2012 and beyond, AMI will continue to leverage the opportunities arising from the combination of property fund business and property financing, which is rare in the market. With regard to retail funds, AMI will proceed with its liquidity and yield based management and, as before, plans to continue selling fund units on the basis of limited sales quotas. It is as yet unclear whether the new regulations that will apply to open-ended property funds starting in early 2013 will influence investor behaviour. At present, we expect those fund regulations to have a stabilising effect. However, short-term irritation and confusion among investors cannot be ruled out.

The forthcoming regulation represents a particular challenge in institutional business in terms of sales terms and conditions.

As in previous years, Real Estate Lending will focus on generating risk-adequate income as an active provider in the market. The gross loan volume is expected to only change to a relatively limited extent. At the same time, syndication activities will remain as brisk as before. According to our expectations, market conditions will vary substantially, which will provide opportunities in terms of buying, selling and financing.

AMI anticipates a largely steady development of the economic result. Potential risks arise in connection with the fact that investor behaviour cannot be reliably predicted against the backdrop of new regulations and the uncertain sector situation, as well as with possible, but not expected, sudden fluctuations in the value of fund properties and properties that serve as loan collateral.

C&M business division

Under demanding regulatory conditions, C&M will continue to focus on offering competitive services in the future alongside innovative capital market and credit products for the Group's investment fund companies and the savings banks.

In view of the demand from saving banks, we expect a volume increase in the trading units of the Markets sub-division, partly owing to the persistent high level of demand for securities lending transactions. At the same time, plans are in place to increase the Bank's own issuing activities and other structured transactions in cooperation with AMK. In ETF business, all signs point to continued growth in the future. The aim is to continually increase assets under management. To this end, plans are in place to implement suitable measures for promoting sales outside of the Sparkassen-Finanzgruppe as well. The medium to long-term objective remains unchanged: to increase the total volume to €10bn.

In the Credits sub-division, we only make selected new commitments in the various credit segments where external placement is an option. Only a relatively limited amount of capital is committed, which in turn restricts income growth.

The Treasury sub-division centres on strategic liquidity management. Regulatory requirements also play an important role and are successively integrated into business processes as they come into force. The challenge lies in providing efficient liquidity management while ensuring a high level of fungibility of the investments at the same time, in order to be able to supply the Group's own funds and/or the savings banks organisation with liquidity at very short notice.

Once again, C&M plans to significantly increase its overall contribution to DekaBank's economic result. Risks in terms of future developments mainly include the conceivable escalation of the national debt crisis, as a result of which the European economy may slide into a prolonged recession. This would have a negative impact on both trading activities and the valuation of the portfolios in Credits and Treasury.

Non-core business

In non-core business, we will pursue what has thus far proven to be a successful strategy: reducing the portfolio while safeguarding assets at the same time. In all three sub-segments (Capital Market Credit Products, Loan Portfolio and Public Finance), substantial reductions of the portfolio volume are envisaged in the coming financial years. Decisions regarding selling, holding or hedging specific positions will continue to be made on a case-by-case basis at regular intervals, taking into account the expected revaluation, default risk and contribution to net interest income.

Risk report

The content and structure 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 policy and strategy

DekaBank has a focussed business model with strictly limited risks. In the scope of the long-term business strategy defined by the Board of Management as well as the risk strategies consistent with it, risk positions are principally 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 leverage synergies in Asset Management. Based on this, DekaBank implements an appropriate risk/reward ratio in the long term, with the aim of achieving a sustained increase in corporate value.

The Bank uses a systematic strategic process to regularly review its group-wide business strategy, management and structure, as well as the divisional and sales strategies in accordance with the Minimum Requirements for Risk Management (MaRisk), and to ensure that they are consistent, complete, sustainable and up-to-date. The process covers planning, implementation, evaluation and any adjustments to the strategies. Use of an appropriate design for the group management and structure guarantees the translation of the business strategy into the business divisions.

The strategies defined for all material types of risk are derived from the corporate strategy for the Group and the strategies for the business divisions and provide specific details regarding risk monitoring and management. They are reviewed at least once a year, adjusted if necessary and discussed with the Administrative Board. This takes into account both external as well as internal factors, the underlying assumptions of which are reviewed regularly and as necessary. In addition, the Administrative Board has established an Audit Committee, which periodically obtains a comprehensive overview of the risk management systems in the DekaBank Group and receives reports on the audit findings from Internal Audit. The Credit Committee also established by the Administrative Board with effect from 1 January 2011 acts as a committee for loan and credit approvals and, together with the Board of Management, provides advice on the business policy direction in the Group's lending business.

An efficient 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, assessed according to varying scenarios and managed in line with the risk-bearing capacity of the Group. We are therefore in a position to quickly take appropriate measures to counter risks in the event of any unwanted developments. The continually revised and updated system also forms the foundation for objective and comprehensive risk reporting: all of the information required for risk management and monitoring 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 its risk positions (Fig. 16). The full Board of Management of the DekaBank Group plays a central role here: the Board is responsible for establishing, further developing and monitoring the efficiency of the risk management system. The full Board of Management approves the permissible overall risk at the 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 (top down view). In addition, the business divisions determine their budgeted capital requirement (bottom up view). Combining the two approaches ensures the most efficient allocation of the risk capital to the business divisions on an annual basis.

In due consideration of risk concentrations, DekaBank has specified limits (risk tolerances) for all material risks and has implemented consistent risk management. As part of a risk inventory, we review, on an annual basis and as required, which risks could have a significant negative impact on assets, including capital resources, earnings situation or liquidity. In this regard, we take all material risks as well as risk concentrations into account. In the course of implementing the requirements of the Minimum Requirements for Risk Management (MaRisk), in the past year we restructured the risk inventory process and developed the associated documentation. This ensures that we have an overview of the overall risk profile of the DekaBank Group at all times.

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 head of the Corporate Centre Group Risk, the head of the Corporate Centre Finance as well as the members of the full Board of Management responsible for those units. The Committee also includes a representative from both the Macro Research unit of the AMK business division and from the Compliance unit in the Corporate Centre Legal. The C&M business division is then solely responsible for implementing the strategic guidelines.

The C&M business division is responsible for the Group-wide management of credit risks. The Corporate Centre Credit Risk Office assumes the role of the 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 and processing management of non-performing and troubled loans.

The respective managers in the Group units are responsible for managing operational risks in their units. A detailed description of their risk management systems is provided under the different risk types.

Risk control

In organisational terms, Risk Control is part of the Corporate Centre Group Risk. This unit, which is independent of the business divisions, is 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 economic and regulatory requirements. Risk Control also monitors compliance with the limits approved by the authorised persons. Limit overruns are immediately reported to the full Board of Management as well as to the respective key decision-makers.

Risk reporting

Each quarter, the Board of Management and Administrative Board receive a risk report in accordance with the MaRisk. 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 are provided with report extracts containing key information on the current risk situation as well as on the corresponding utilisation of the risk-bearing capacity 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 is drawn up in a risk-oriented manner using a scoring model and approved by the Board of Management.

Organisational structure of risk management in the DekaBank Group *(Fig. 12)*

		Market price risk	Liquidity risk	Credit risk	Operational risk	Business risk	Property risk/ property fund risk	Shareholding risk
Administrative Board (or Audit Committee)	- Overview of current risk situation/risk management system - Discussion of strategic direction with Board of Management	●	●	●	●	●	●	●
Administrative Board (or Credit Committee)	- Loan approval committee - Discussion of the business direction in lending business with Board of Management			●				
Board of Management	- Determines strategic direction - Responsible for Group-wide risk management system - Sets return on equity target and allocation of risk capital to risk types and business divisions - Sets overall limit and approves limits within risk types	●	●	●	●	●	●	●
ALMC [1]	- Specifies framework for management of strategic market price risk position - Proposes overriding limits	●	●					
AMK business division	- Conducts transactions in line with strategic guidelines			●		●		
AMI business division	- Conducts transactions in line with strategic guidelines			●		●	●	
C&M business division	- Conducts transactions in line with strategic guidelines	●	●	●				
	- Decisions within the framework determined by ALMC and specifies limits within Markets/Treasury	●	●					
	- Manages Group-wide credit risk			●				
Credit Risk Office (Corporate Centre)	- Administrative office for early risk identification - Market independent second recommendation - Prepares/approves ratings - Checks certain collateral - Monitors transaction management for non-performing and troubled loans			●				
Risk control (Corporate Centre Group Risk)	- Development/update of system to quantify, analyse and monitor risks - Report to Board of Management and Administration Board - Determines/monitors risk-bearing capacity - Monitors approved limits	●	●	●	●	●	●	●
Equity Investments (Corporate Centre Strategy & Communication)	- Manages equity investment portfolio							●
Compliance (Corporate Centre Legal Affairs)	- Monitors compliance with rules of conduct under capital market law and consumer protection in securities business				●			
Corporate Security Management (Corporate Centre IT/Org)	- Ensures IT security and is responsible for business continuity management				●			
DekaBank Group	- Identifies, measures and manages operational risks on a decentralised basis				●			
Internal Audit (Corporate Centre)	- Audits and evaluates all activities/processes (especially risk management system)	●	●	●	●	●	●	●

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

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

New regulatory provisions

In this reporting year, we fully implemented the MaRisk amendments that took effect towards the end of last year. The new system for performing cross-risk type (macro-economic) stress tests was already put into operation at the start of 2011. As part of the risk-bearing capacity analysis, the stress tests now provide the opportunity to conduct even more comprehensive alternative analyses of the risk and result development, which supplement the value-at-risk approach. The macro-economic stress scenarios were incorporated into the Committee reporting and are examined on a quarterly basis.

We responded to the requirements for the liquidity management of capital market oriented institutes contained in the new MaRisk by further developing our mechanisms. The MaRisk require there to be sufficient additional funds in place as well as highly liquid assets that are eligible as security for central bank borrowing, to bridge a short-term refinancing requirement in a stress scenario for a minimum of one week. For a period of at least one month, further components of the liquidity reserve may be used, provided that they can be turned into cash without significant loss in value and regulatory requirements are complied with.

Against this background, the funding matrix (FM) which has been relevant for management since December 2011 now provides a stress oriented illustration of the liquidity position of DekaBank (see page 43). This takes into account a combined scenario of institution-specific and market-wide stress factors. Free (uncommitted) securities shall only be taken into account in the first week if they are highly liquid and unencumbered.

The expanded requirements of the new MaRisk for the risk-bearing capacity concepts of banks were specified in the fourth quarter of 2011 by the BaFin guidelines on the supervisory assessment of internal bank risk-bearing capacity concepts. Based on this, DekaBank already made relevant adjustments in determining the risk-bearing capacity at the end of November 2011. These relate to defining the risk cover potential as well as to determining the Group risk (see page 44).

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 differentiated by 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 risks describe 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.

In line with DekaBank's business strategy, transactions mainly relate to customer transactions (customer business) and to a small extent to the Bank's own portfolio (investment portfolio, liquidity reserve and trading portfolio). 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.

Credit risks

We essentially define credit risk as the risk that a borrower, issuer or counterparty will not fulfil his contractually agreed-on services or fulfil them on time and that DekaBank will incur 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 assessed in particular by the creditworthiness of the respective contracting partner, as well as replacement risk and open positions. Advance performance risk represents the threat that a business partner will not pay the contractually agreed-upon consideration after advance performance rendered by DekaBank.

Losses which could arise for the Bank as a result of negative rating migrations of individual business partners or issuers are also part of the credit risk. These are predominantly taken into account within the scope of our credit portfolio model and also considered when determining the risk-bearing capacity.

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 the Credits, Markets, and Treasury sub-divisions. The main tasks of the Credits sub-division are to accumulate and manage credit assets in the investment book, which can be made available in the form of funds or other participation formats. The activities of the Markets sub-division comprise spot trading and derivatives brokerage, market making for ETFs and generating additional income for customers by lending securities from the portfolios of the investment funds via repo/lending transactions. The issuer and counterparty risks arising from trading activities in the Markets sub-division primarily relate to financial institutions, funds and corporates. The Treasury sub-division pools DekaBank's own investments and is responsible for managing market price risks related to the investment book as well as liquidity risks. In Treasury, credit risks mainly arise from asset and liability management (ALM).

Further credit risks result from Germany 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 potential losses resulting from the use of internal processes and systems that are inappropriate or susceptible to failure as well as from 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 potential for damage 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 mismatch of maturities in assets and liabilities. In principle, the Bank distinguishes between insolvency risk and liquidity maturity transformation risk.

Insolvency risk describes the risk of not being able to meet DekaBank's current and future payment obligations on time. The insolvency risk therefore constitutes the risk that the Bank's obligations will exceed the available liquid funds at a specific point in time.

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. DekaBank observes and manages both risk definitions using the funding matrix. Limiting maturity bands ensures liquidity and refinancing forecasts and therefore minimises the liquidity maturity transformation risk.

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 to be material if they unexpectedly have a negative impact on the earnings trend as a result of volume and margin changes and are not attributable to any of the above risks.

Shareholding risk

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

Property risk

Property risk describes the risk of a drop in the 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

With regard to the system of bank-internal risk-bearing capacity concepts recently introduced by the BaFin as part of the revised regulations, DekaBank pursues an approach which is focussed on the liquidity perspective, whereby the constant protection of the creditors is at the forefront, even in extremely rare risk situations.

To this end, we determine our Group risk as a total across all significant risk types that have an effect on income. Group risk is measured as the amount of capital that with a high level of probability will suffice to cover losses from all of 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. Key for the internal management is currently a confidence level of 99.9%, which is accordingly derived from the target rating or the business model of the DekaBank.

When determining market price risk contained in the Group risk, in accordance with the new regulatory requirements, we now also consider the spread risks arising from securities in the lar and htm IFRS balance sheet categories, which are reported at amortised cost, in the scope of risk-bearing capacity. We have also revised the system for determining credit risk. The adjustments here are primarily related to the improved accounting of collateral in the case of project financing as well as further differentiation of the migration matrices, with which we record the effects of rating changes on the credit value-at-risk (CVaR).

The Group risk determined from the individual risk categories is matched by the risk cover potential. If this is consistently higher than the Group risk, i.e. the utilisation level stands at less than 100%, the risk-bearing capacity of DekaBank is guaranteed at all times.

Corresponding to the liquidation approach pursued here, all capital components which in the hypothetical event of liquidation do not put strain on the senior creditor can be used. To assess the risk-bearing capacity on an additionally differentiated basis, DekaBank distinguishes between primary and secondary risk cover potential in line with the legal position of the investor.

The primary cover potential essentially consists of equity capital according to IFRS and the net income contribution for the year. Pursuant to the adjustments recently made to our methodology, the expected portfolio-related income components from Asset Management for the next twelve months as well as the accumulated net income for the year are now taken into account during the year. Furthermore, the capital components according to IFRS are adjusted for corresponding corrections, such as for hidden charges arising from securities in the investment book or positions such as goodwill.

The secondary cover potential also includes hybrid capital type positions; these comprise profit participation capital and subordinated liabilities – each with a remaining maturity of at least one year – as well as typical silent capital contributions.

The primary cover potential essentially forms the basis for internal management, whereas the secondary cover potential remains for potential stress situations.

The risk-bearing capacity analysis is conducted monthly and the results are reported to the Board of Management in a timely manner. The Administrative Board is informed quarterly.

Stress tests

In addition to the risk-bearing capacity analysis, regular stress tests and scenario analyses are performed for all key market parameters, in order to assess the impact of extreme market developments. This ensures that the risk consideration and risk-bearing capacity are also guaranteed in situations which cannot be derived directly from statistical data. The analysis covers all individual material risk types such as market price risk positions (interest rate, credit spreads, share prices and exchange rates) as well as liquidity risk and credit risk positions. In the course of macro-economic scenarios, numerous combinations relevant for the Bank are regularly reviewed across all risk types with regard to their effect on the income and risk situation.

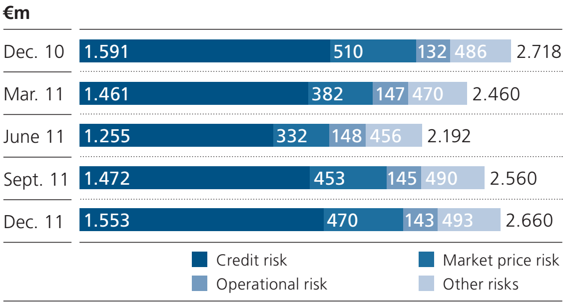
The macro-economic stress tests quantified since the beginning of the reporting year cover both historical scenarios (for example for financial market crisis or terrorism risks) as well as hypothetical stress situations, for instance the default of a specific counterparty that is important for the bank. Furthermore, “inverse” stress tests, in which specific manifestations are examined for certain scenarios that would lead to the risk-bearing capacity limit being reached, are also considered on an annual basis. All scenarios are regularly assessed in terms of their suitability and can be supplemented by corresponding ad-hoc analyses upon request. The scenario results are approved quarterly by the Bank’s Stress Testing Committee, against the background of the risk-bearing capacity as well. This allows fields of action to be identified as early as possible in the event of emerging crisis situations.

Overall risk position in financial year 2011

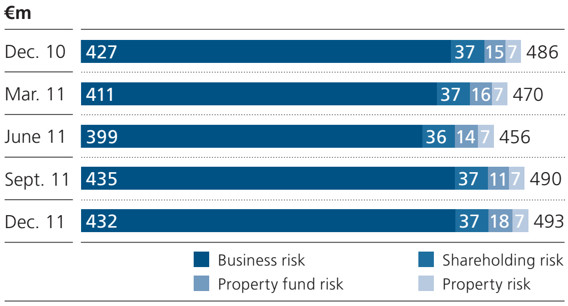
For 2011, the development of the DekaBank Group risk again shows that the risk models of the DekaBank adequately and promptly reflect the market trends. After a decrease in the first half of the year, market and counterparty risks increased again significantly starting in mid-year. In particular, decisive factors here were the considerable increase in spread volatilities in the public sector as well as the overall heterogeneous development of risk premiums in various rating classes and the associated increase in migration risks. The European national debt crisis especially had an impact on our positions in Treasury.

At the end of 2011, the value-at-risk (VaR) amounted to €2,660m with a confidence level of 99.9% and a time horizon of one year. Despite the greater accumulation of spread risks in the course of the risk-bearing capacity analysis, the Group risk remained below the corresponding previous year’s figure (end of 2010: €2.718m); (Figs. 13 and 14).

Change in Group risk over the course of the year *(Fig. 13)*



Change in Group risk over the course of the year – other risks *(Fig. 14)*



The methodology adjustments in the market price risk, which also include the increased consideration of spread risks for securities in the investment book as well as use of credit spread curves more strongly differentiated according to segments, themselves lead to a slight rise of approximately €50m. However, despite this effect and the intensification of the European national debt crisis, the market price risk decreased over the year as a whole. The increase in spread volatilities in the second half of the year was also partly compensated by the reduction in risk positions.

The development of the counterparty risk reflected a favourable development in creditworthiness risk in the first half of the year; subsequently, however, there was an increasing heterogeneous development in risk premiums in some rating classes. As a result of the continued further portfolio reduction in non-core business, the counterparty risk was also slightly below the previous year's figure. In addition, the methodology was adjusted, and migration risks are now assessed more strongly differentiated according to individual segments.

The remaining risks included in the risk-bearing capacity analysis only experienced slight changes in comparison to the previous year.

The proportion of the core business in the overall risk increased further during the course of the year. The overall risk at year-end was €2,372m (previous year: €2,057m). In comparison, a disproportionate decrease to now €434m was recorded in non-core business (end 2010: €662m). In this regard, the continued and planned reduction in volume had a risk-reducing effect.

In line with the Group risk, the available cover funds also decreased in the reporting year. The primary risk cover potential declined to €3.421m as at the 2011 reporting date (previous year: €4,431m). In addition to the impact of purchasing the Bank's own shares as part of the complete takeover of DekaBank by the savings banks, various effects arising from the afore-mentioned changes in methods for determining the cover potential came into play as well.

The utilisation rate of the primary cover potential accordingly increased to 77.8% year-on-year (end of 2010: 61.3%). The risk-bearing capacity was ensured at all times. Despite the observed increase, we continue to assess the utilisation in both the overall context as well as for specific risks as non-critical. Nevertheless, the tighter regulatory requirements for risk-bearing capacity still necessitate prudent management of DekaBank's overall risk position. The overall risk-bearing capacity of the DekaBank Group (including the secondary cover potential) totalled €4,694m at year-end 2011 (end of 2010: €5,840m). The utilisation rate of the overall risk-bearing capacity was 57.0% as at year-end and also increased from 47.0% compared with the value at the close of the previous year. The overall risk-bearing capacity was also clearly indicated in all macro-economic stress scenarios that were analysed.

Market price risks

Risk management and monitoring

DekaBank's market price risk strategy stipulates the parameters for DekaBank's trading transactions and all other transactions entailing 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 specifications for risk management, control and reporting. Furthermore, the trading strategy forms an integral part of the market price risk strategy.

The ALMC defines the parameters for managing strategic market price risk positions in line with the limits. In principle, the Committee meets twice a month to discuss the current strategic risk position. Daily risk monitoring and reporting is carried out by the Market Risk Control unit in the Corporate Centre Group Risk. In the event of limit overruns, Market Risk Control immediately informs the full Board of Management and the responsible decision-makers. The Risk Models unit in the Corporate Centre Group Risk is responsible for the development of the methodology, quality assurance and validation of the processes used to quantify market price risks.

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

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

Risk positions are generally limited at the portfolio level using risk ratios derived from the VaR process described below. In addition to these risk limits, stop loss limits are defined for trading books in order to effectively limit losses. The basis for calculating the utilisation of the stop loss limits is the accumulated net income for the year determined by the Desk Performance Corporates & Markets unit in the Corporate Centre Finance. If the loss exceeds the stop loss limit, the open positions in the corresponding portfolios have 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 credit spreads changes on the valuation, DekaBank puts a special priority on monitoring related market price risks. The systems to measure and monitor risks are continually refined and further developed.

The value-at-risk ratios are determined daily, using a sensitivity-based Monte Carlo simulation. The input parameters for this risk model are the sensitivity variables delta, gamma and vega (the Greeks). These first and second-ranking sensitivities express the price sensitivity of financial instruments to changes to the underlying risk factors and facilitate the assessment of the overall risk of linear and non-linear products. They are available as additional management parameters for risk estimation beyond the limitation.

The model ensures the mapping of all risk factors, which is closely aligned with the trading strategy, including non-linear and credit spread risks. Daily risk measurement is integrated for all risk types related to market price risk, both in the trading book and investment book. This guarantees a comprehensive view of all market price risks, while adequately taking into account concentration and diversification effects by including correlations across all portfolios and risk types.

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, we calculate the VaR for a holding period of ten days (for trading one day) and a confidence level of 95%. The operating VaR therefore corresponds with a probability of 95% to the maximum loss on a position held over a period of ten or one trading days.

The Monte Carlo simulation is comprehensively used across all portfolios, including 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 correlations within the interest rates and credit spreads and currencies and equities risk categories as well as correlations between the risk categories.

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

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

Sensitivities

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

In terms of credit spread risk, we also conduct a differentiated analysis according to currency areas and maturity bands, similar to the procedure for the general interest rate risk. Specifically, the analysis is broken down into 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.

Scenario analysis

Alongside the analysis of risks as part of the value-at-risk procedure, scenario analyses are also important for managing and monitoring risk. In this regard, we distinguish between sensitivity analyses 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, the analyses 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. To analyse interest rate risk positions, we regularly perform 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 effect on earnings based on the Bank's current interest rate expectations and applies the scenarios to 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 were continually further developed. We currently analyse four different stress scenarios. On the one hand, 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 market crisis. At the same time, we calculate hypothetical scenarios. 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.

Backtesting of VaR risk ratios and validation

In addition to detailed validation of the individual assumptions used in the model, we regularly conduct backtesting for various portfolio levels in order to test the validity of our VaR forecast. In this process, the daily results, which are theoretically achieved assuming unchanged positions on the basis of the market developments observed on the following day, are compared with the forecast value-at-risk figures for the previous day. We also use the backtesting results to further develop the risk model. A report with the results is submitted to the ALMC on a quarterly basis. The backtesting results verify the general suitability of the market risk measurement on both the institute level and the level of subordinate organisational units.

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, the Corporate Centres Group Risk and Finance, the heads of the Group Risk, Finance, Treasury and Markets units as well as the COO of Markets & Treasury 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 immediately reported to the full Board of Management. The Administrative Board is informed quarterly.

Current risk situation

The overall market price risk (holding period of 10 days and confidence level of 95%) amounted to €51.7m at year-end 2011 (end of 2010: €44.8m); (Fig. 15).

Value-at-risk at the DekaBank Group[1] (Confidence level 95%, holding period 10 days) *(Fig. 15)*

€m Category	Core business	Non-core business	31.12.2011 Group	Core business	Non-core business	31.12.2010 Group	Change in risk
Interest rate risk	47.6	16.1	51.2	31.2	25.5	43.3	18.4 %
Interest rate – general	4.2	4.6	7.7	2.1	2.1	2.4	226.0 %
Spread	47.9	15.3	52.0	30.8	25.7	43.2	20.4 %
of which in capital market credit business	24.2	14.8	28.8	14.1	25.1	28.0	2.8 %
Share price risk	6.3		6.3	8.9		8.9	–28.4 %
Currency risk	4.7	3.8	1.1	2.0	2.5	4.2	–73.7 %
Total risk	**48.7**	**16.8**	**51.7**	**32.9**	**26.0**	**44.8**	**15.4 %**

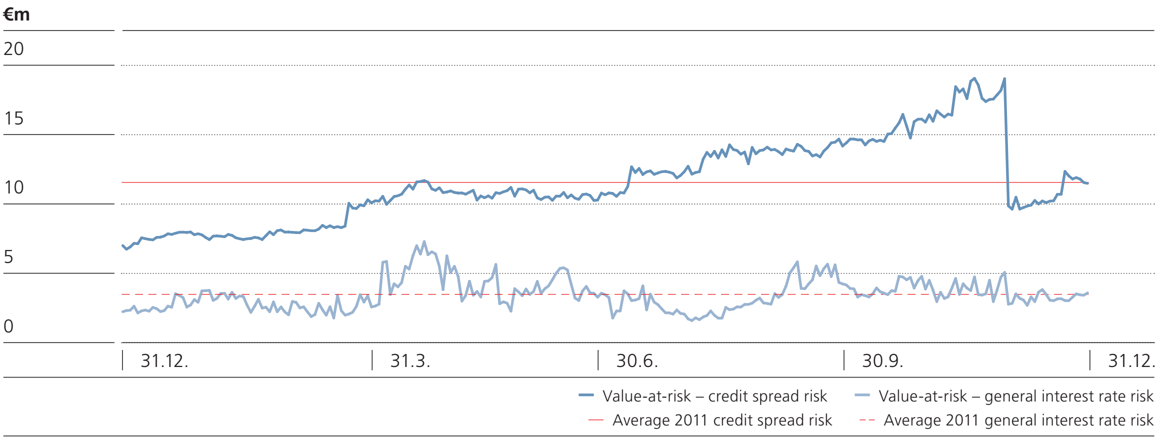
[1] Risk ratios interest rate risk and total risk take account of diversification. Including issuance specific credit spread risk.

The increase in the spread risks included in the interest rate risk was the decisive factor in the higher figure as compared to the previous year. The credit spread risk rose to €52.0m (end of 2010: €43.2m). After a negative development in the first half of the year, which was particularly attributed to lower volatilities in securitisation transactions in non-core business, the positions held in Treasury primarily experienced extended spread curves and greater market price fluctuations starting in mid-year. In the trading book (Markets) the credit spread risk was €10.2m (end of 2010: €6.7m), whereas it totalled €39.5m in the Treasury banking book (end of 2010: €39.2m).

The general interest risk rose throughout 2011 to €7.7m after the very low figure at year-end 2010 (€2.4m). This was essentially attributed to the development of money market positions as well as the generally higher market volatility. As in the previous year, the general interest risk largely resulted from euro-denominated positions. In the trading book (Markets) the general interest risk totalled €3.2m at year-end 2011 (end of 2010: €2.2m), in the Treasury banking book it was €5.0m (previous year: €1.9m). The general interest risk in the banking book portfolio of the Markets unit stood at €0.6m as at the reporting date on 31 December 2011.

The graph below illustrates the course of the credit spread and general interest risk VaR for Markets trading. At year-end, the effects of methodological refinements which contained an expanded use of credit spread interest curves are shown (Fig. 16).

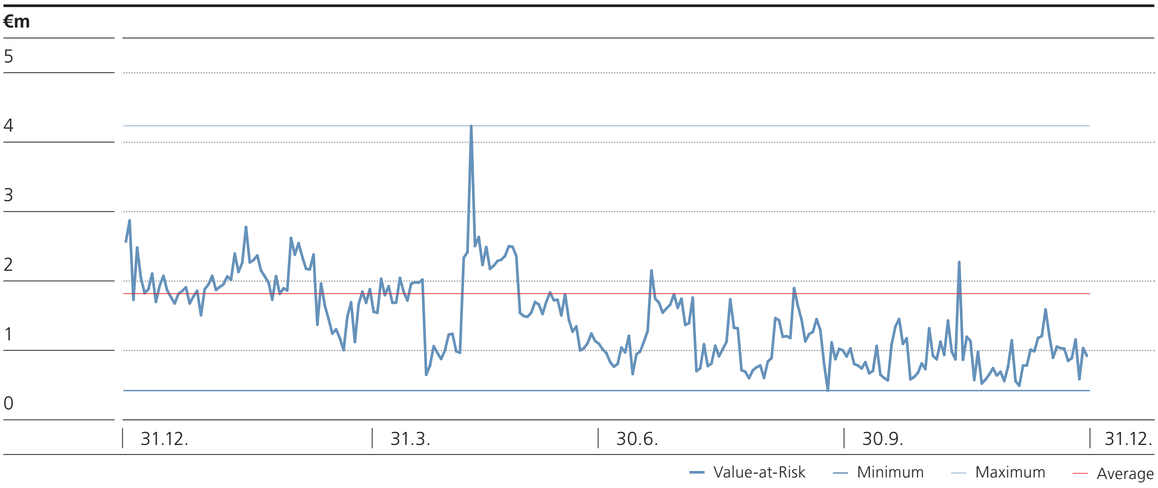
Value-at-risk – General interest rate risk and credit spread risk in Markets trading over the course of the year 2011 *(Fig. 16)*



The share price risk which exclusively arises in the core business was €6.3m as at the 2011 reporting date and thus below the previous year's figure (€8.9m). The background for this is a reduction in positions in equity derivatives as well as hedge adjustments in the start-up financing of funds. In the trading book (Markets), the share price risks totalled €0.9m (end of 2010: €2.6m), in the Treasury banking book €6.2m (end of 2010: €8.3m).

Figure 17 shows the development of the share price risk for Markets trading over the course of the year.

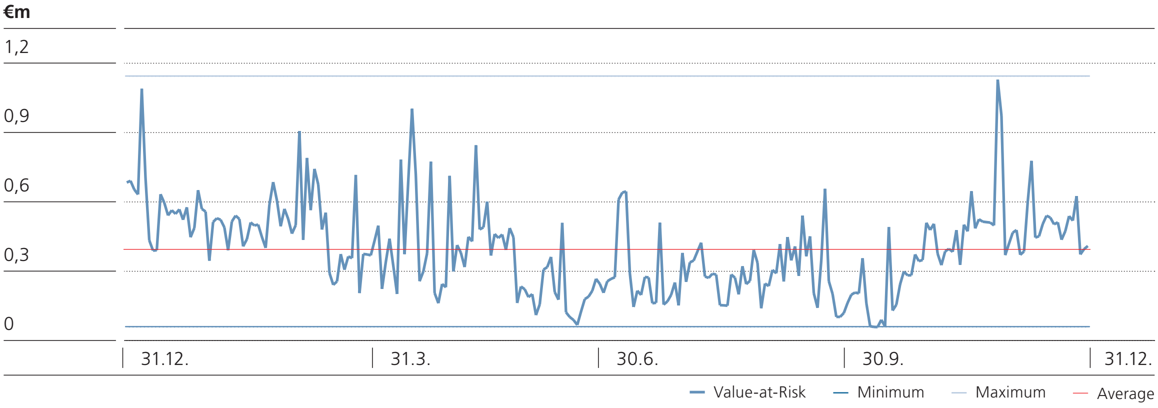
Value-at-risk – Share price risk in Markets trading over the course of the year 2011 *(Fig. 17)*



The currency risk also decreased further as compared with the previous year, totalling €1.1m (end of 2010: €4.2m). This is attributed to market value changes of existing transactions. The contrary development due to higher market volatilities was overcompensated. The currency positions were mainly held in US dollars and pounds sterling. At year-end 2011, currency risks in the trading book (Markets) amounted to €0.3m (previous year: €0.6m), as well as €4.6m in the Treasury banking book (previous year: €3.7m). The banking book of the Markets unit contained a currency risk of only €0.1m as at the reporting date.

The development of the currency risk is illustrated in the graph for Markets trading (Fig. 18).

Value-at-risk – Currency risk in Markets trading over the course of the year 2011 *(Fig. 18)*



Credit risks

Risk management and monitoring

Organisation of credit risk management

The credit risk strategy is the foundation for handling counterparty default risks in the DekaBank Group with regard to the structure of the credit processes, the independent risk assessment and the responsible management of risks in due consideration of collateral. It provides the parameters for the business activities of the DekaBank Group with respect to borrower risks, issuer risks, advance performance risks and replacement risks, and forms the basis for a comprehensive credit risk structure analysis. Moreover, the strategy outlines the counterparty default risk principles for loans as defined by Section 19 (1) of the German Banking Act (KWG) and describes the segments which represent the focus of 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, reviewed at least once a year and discussed with the Administrative Board. Credit risks are monitored and managed in accordance with standard principles, regardless of whether the risks stem from trading or non-trading transactions. The associated tasks are carried out by the Board of Management, the C&M, AMI (Real Estate Lending) and AMK (sales direct customer business and private banking) divisions, by the Corporate Centre Credit Risk Office as well as the Credit Risk Control and Risk Models units in the Corporate Centre Group Risk.

In line with the 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 responsible for the market-independent second recommendation for loan decisions as well as for preparing and approving creditworthiness analyses and ratings. Moreover, the Corporate Centre Credit Risk Office ensures the quality of the credit processes, develops them further if required and monitors the transaction management of non-performing and troubled loans as a permanent member of the Monitoring Committee. In addition to the head of the Corporate Centre Credit Risk Office, the members of this committee, which is responsible for managing and monitoring the processing of troubled exposures, include the heads of the Credits, Markets and Treasury sub-divisions 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 and Risk Models units of the Corporate Centre Group Risk. The Credit Risk Control unit monitors credit risks at the borrower level and is responsible for risk reporting with regard to credit risks. Its remit also includes developing methods and reviewing rating procedures.

Acceptances and other decisions regarding the future development of the rating procedures are the responsibility of the Rating Committee (see the section on assessing creditworthiness). The Risk Models unit is responsible for monitoring credit risks at the portfolio level and for the development of methodology and quality assurance of procedures for quantifying credit risks, in particular on the basis of the credit portfolio model.

Independent risk assessment and monitoring is guaranteed by the functional and organisational separation of the Corporate Centres Credit Risk Office and Group Risk from the C&M division as well as the Real Estate Lending sub-division in AMI and the AMK division (sales direct customer transactions and private banking).

Management, monitoring and limiting of credit risks

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

With regard to the economic borrower and, where applicable, the economic borrower unit, DekaBank has set sublimits for the position risk and advance performance risk as well as a limit for the overall position. The limits are based on the borrower's creditworthiness as well as the collateralisation and term of the transactions. Country and sector aspects also play a role. Moreover, it is ensured that individual exposures do not exceed an appropriate sum. The Bank does not enter into credit transactions of a highly speculative nature or which entail very unusual risks. Furthermore, in accordance with the credit risk strategy, project financing must meet the requirements of the Equator Principles, which is understood as the voluntary obligation to meet minimum social standards as well as environmental standards. External experts are commissioned to review and classify projects.

Special risk-limiting standards apply in the Credits sub-division, depending on the type of financing. In project financing, for example, care is taken to ensure technological security as well as suitable price risk and cost reserves; appropriate equity capital participation of the financing recipient and access to cash flows which secure debt service are also pertinent in this respect. In public infrastructure finance, the assessment of the financed property and of the operator plays a key role, while country and supplier risks are particularly relevant in ECA-covered export and trade financing.

In the segment of structured capital market products and the other segments which are 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, on 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, special framework agreements in repo/lending transactions and collateral management agreements.

The AMK private customer lending business largely comprises Lombard loans, futures and options as well as forward exchange transactions within the scope of servicing affluent private customers. Credit is only granted upon provision of valuable collateral.

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 mitigation techniques under the German Solvency Regulation (SolvV), this can only take place following implementation and documentation of the prerequisites required under the SolvV. All relevant units of the Bank are included in this process.

Assessing creditworthiness

When assessing the creditworthiness of borrowers, we generally do not rely on external ratings, but rather use a finely differentiated, internal rating system at the Group and Bank level which meets the requirements of the current rules for determining equity backing for financial institutions. 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 business transactions with companies, banks and sovereigns and also supplies crystal clear creditworthiness ratings in the area 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 Group Risk.

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

The responsibility for internal Bank acceptance or decisions regarding the further development of methodology and the updating of the rating systems lies with the Rating Committee, which is predominantly made up of representatives from the Corporate Centres Credit Risk Office and Group Risk. 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-based simulation approach. In addition to the modules mentioned above, expert methods 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 that are 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 connection with Basel II encompass a wide range of default events, which can range from temporary payment problems up to insolvency of the borrower.

Each rating 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 takes account of the requirements of DekaBank's market environment to a large extent. The ratings are updated annually and as required.

Quantifying credit risks

Limit monitoring

In general, counterparty-related credit risks are monitored at the economic borrower and economic borrower unit level. To this end, the main exposures from the lending and trading business count towards the utilisation of the limits for advance performance risk, position risk and overall risk, which are managed centrally by Credit Risk Control. Off-balance sheet items such as irrevocable lending commitments or guarantees granted 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 arising from bonds and guarantor positions relating to credit default swaps (CDS) in the trading book are monitored on the basis of a global limit based on the holding period, unless relevant individual counterparty-related limits exist.

Limit overruns at the economic borrower unit level or global limit level are reported immediately to the full Board of Management. 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 also monitored separately.

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 that are in default by more than 90 days and account for more than 2.5% of the overall risk position (Section 125, Solvency Regulation).

The responsibility for monitoring and managing troubled exposures lies with the Monitoring Committee (also see the section on the organisation of credit risk management). The committee specifies the early warning indicators and classification criteria, monitors exposures categorised as troubled, stipulates the measures required and monitors the effect of those 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 as of an internal rating of 10 in accordance with the DSGV master scale. Deviations have to be justified on a case-by-case basis. 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 at the reporting date but were not yet known. Provisions are created to take account of creditworthiness risks in off-balance sheet lending business.

Credit portfolio model

In addition to the structural analysis of the credit portfolio, credit risks are mapped 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 the economic pressure on equity resulting from credit risks and integrating these in the risk-bearing capacity analysis and quantifying concentration and diversification effects.

The portfolio model is largely based on a credit metrics approach. Along with the default risks in the narrower sense, the risks arising from a change in creditworthiness are also taken into consideration in the form of rating migrations. The probability allocation for credit risk induced changes in the value of the portfolio is generated using a Monte Carlo simulation. In the reporting year, the migration matrices were more strongly differentiated according to regional considerations as well as risk segments. Moreover, the collateral recognised when determining the loss ratio was taken into account based on individual cases from rating modules for project financing. Overall, this had a slight risk-educing effect.

A key result of the portfolio model is that it determines a credit-value-at-risk (CVaR) with a confidence level of 99.9% and an assumed holding period of one year. The CVaR is currently determined each month on a Group-wide basis and incorporated in the processes and reports relevant to the management and monitoring of credit risks. It is included in the risk-bearing capacity analysis, taking into account the provisions for loan losses.

Credit risk reporting

In addition to monitoring limits on a daily basis, Credit Risk Control prepares a monthly summary report containing the main explanations and any partial limit overruns during the reporting month; the summary report is discussed each month by the Board of Management.

Moreover, Credit Risk Control prepares a credit risk report 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 at the end of every quarter and submitted to the Board of Management and in condensed form to the Administrative Board.

Current risk situation

In alignment with the clearly defined focus of its lending business on asset management, DekaBank generally only takes on new exposures on a strictly selective basis. This business policy was consistently pursued in the reporting year as well. In this respect, we have also taken the increasingly tighter regulatory requirements for the core capital ratio into account. Furthermore, against the background of the temporarily reduced risk cover potential, we manage our risk assets and the resultant counterparty default risks restrictively within the scope of the predefined limits.

As a result of the new presentation form introduced in the past financial year, which is more closely aligned with the standards of internal risk monitoring and management, the volume-related indicators of this current credit risk report can only be compared with the published figures of the previous year to a limited extent. Since underlying risks from equity derivatives transactions as well as transactions are now also included for the purpose of mapping the guarantees of guaranteed funds, the gross loan volume tended to appear larger in the new presentation form. In addition to the newly recognised positions, the volume also contains other off-balance sheet counterparty risks as well as claims from lending transactions and therefore exceeded the Group assets shown in the IFRS statement by a total of €26.6bn.

Conversely, as compared to the previous presentation form, the net loan volume has decreased steadily as a result of the higher granularity of the collateral inclusion. To facilitate better comparison, the volume-related previous year's figures in this report were adjusted in line with the new inclusion method and can therefore no longer be directly compared with the figures published last year.

The gross loan volume increased by €6.5bn to €160.4bn as compared with the adjusted previous year's figure (€153.9bn); (Fig. 19).

Gross loan volume *(Fig. 19)*

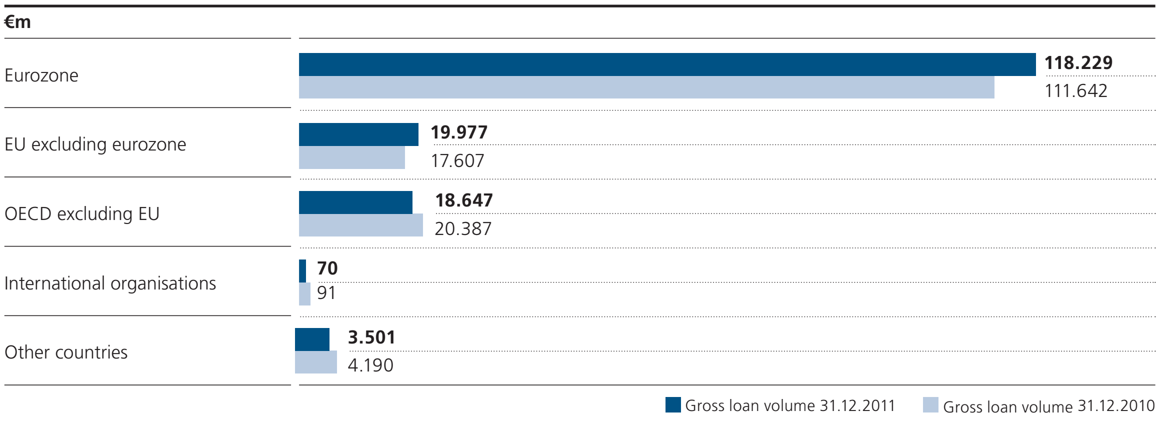
€m	31.12.2011	31.12.2010
Financial Institutions	92,688	80,046
Corporates	16,867	20,900
Public sector finance Germany	16,324	15,809
Funds (transactions and units)	12,153	14,764
Property risk	8,229	8,046
Transport & trade Finance	5,964	6,191
Utility & project Finance	3,085	3,122
Other	5,115	5,037
Total	**160,425**	**153,916**

The weightings of the individual risk segments shifted in the reporting year. The gross loan volume ascribed to financial institutions, including the savings banks, increased by €12.6bn to €92.7bn. The main driving force of this was the higher gross loan volume in repo/lending business in the second half of the year and, to a lesser extent, the derivatives business. The proportion of loan volume with other financial institutions therefore rose from 52.0% to 57.8% of the gross loan volume.

In the corporates risk segment, the reduction in the gross loan volume by €4.0bn was primarily due to the downturn in business with secured equity positions. The volume in the funds risk segment, which reflects our shares and businesses with securities, also decreased. Only minor shifts took place in the other risk segments. The changes in the gross loan volume in the individual risk segments only had a moderate impact on the net loan volume on the whole.

As was the case in previous years, the majority of the gross loan volume was attributed to the eurozone (€118.2bn). Its weight in the regional distribution increased slightly from 72.5% last year to 73.7%. Almost three-quarters of the gross loan volume in the eurozone related to borrowers in Germany. Gross loan volume attributed to EU countries outside the eurozone rose by 13.5% to €20.0bn. The share of the OECD countries outside of the EU was €18.6bn and therefore only slightly decreased by €1.7bn as compared to last year. However, the gross loan volume in the other regions changed only marginally (Fig. 20).

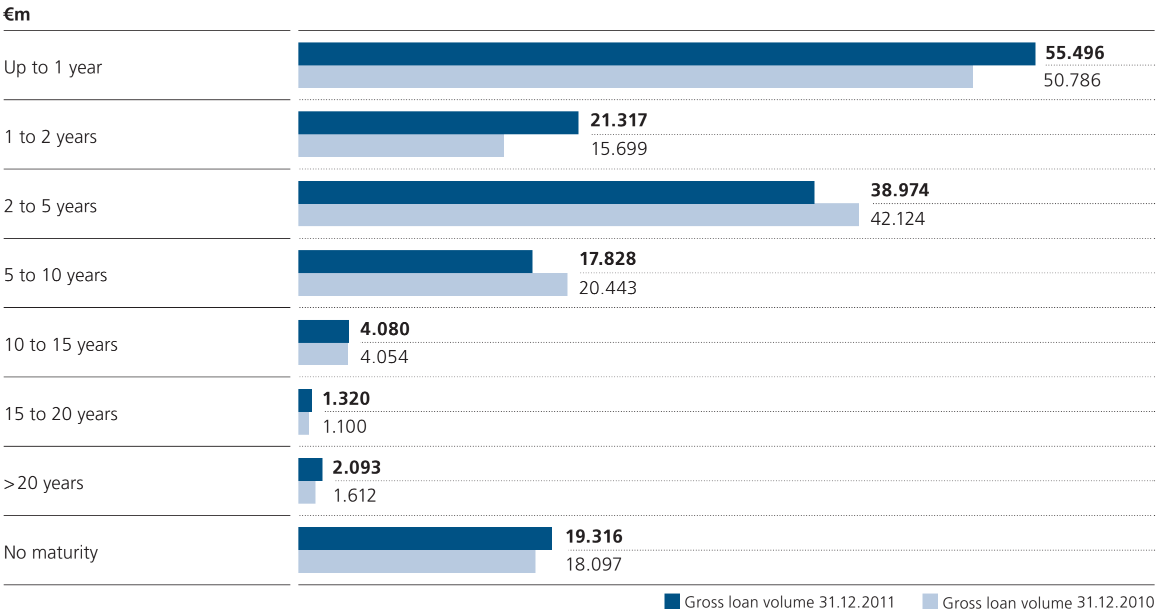
Gross loan volume by region *(Fig. 20)*



Countries with a rating of 6 or poorer in accordance with the DSGV master scale or with a probability of default of 48 basis points or more are monitored using a global country limit. As in the previous year, its utilisation was below 20%. The gross loan volumes in the Euro countries with downgraded credit ratings, Portugal, Italy, Ireland, Greece and Spain, decreased to €5.9bn in the reporting year (end of 2010: €6.2bn). This decline is, amongst other things, attributed to the reduction in volume in the countries concerned as compared with the Euro core countries (€–326m). With a share of 3.7% in the overall gross loan volume, the exposure in the countries currently under discussion is generally very limited.

The average remaining maturity of the gross loan volume decreased slightly from 3.2 years to 3.1 years as compared with the previous year's figure. For 34.6% of the gross loan volume, the maturity was less than one year, with only 4.7% of the gross loan volume featuring a remaining maturity of ten years or more (Fig. 21).

Gross loan volume by remaining maturity *(Fig. 21)*



The extent of the corresponding deductions from the gross loan volume to the net loan volume rose slightly once again in the reporting year, amounting to €108.0bn as at the reporting date (end of 2010: €102.4bn). This remained at approximately two-thirds of the gross loan volume. Compared with the previous year, it was particularly the hedged volumes in the financial institutions risk segment which increased; the significant rise reflected the fact that almost all of the new business of DekaBank was comprehensively collateralised with other credit institutions. For example, the volume of offsetting agreements on reverse repo transactions in the financial year grew, as did lending and round tripping and futures.

The resultant net loan volume totalled €52.4bn as at the reporting date on 31 December 2011, which corresponds to a slight increase of 1.7% in comparison to the previous year. The financial institutions risk segment accounted for the largest share of the net loan volume, followed by a wide margin by corporates and funds (Fig. 22). The net loan volume in PIIGS countries fell by €350m, its share therefore decreased from 6.8% in the previous year to now 6.0%.

Net loan volume *(Fig. 22)*

€m	31.12.2011	31.12.2010
Financial Institutions	31,756	31,515
Corporates	6,262	6,573
Funds (transactions and units)	4,090	2,753
Property risk	3,064	3,240
Transport & trade finance	840	1,079
Utility & project Finance	3,024	3,058
Other	3,374	3,323
Total	**52,408**	**51,541**

The concentration of the loan portfolio only slightly increased in the reporting year. At year-end, the ten largest borrowers accounted for 25.6% of the net loan volume (end of 2010: 25.2%). 5.4% of the credit borrower units therefore made up 80% of the net loan volume.

The average rating of the net loan volume calculated on the basis of the DSGV master scale remained unchanged at 4, while it was able to improve one notch to 3 in gross terms. By far, the largest proportion of the net volume (89.5%) was not affected by changes in ratings in the reporting year. As for the remaining volumes, positive and negative migrations were balanced, whereby in most cases the change was restricted to a rating class. The average default probability of the portfolio therefore only changed insignificantly as compared with the previous year and stood at 24 basis points. As at the reporting date, 88.2% of the net loan volume (previous year: 86.4%) had a DSGV rating of 3 or better. In the most important risk segment, financial institutions, the average rating improved slightly by one notch from AA- to AA and thus had an average default probability of 3 basis points (Fig. 23).

Net loan volume by risk segment and rating *(Fig. 23)*

€m	Average PD in bps [1]	Average Rating 31.12.2011	31.12.2011	Average PD in bps [1]	Average Rating 31.12.2010	31.12.2010
Financial Institutions	3	AA	31,756	4	AA–	31,515
Corporates	57	6	6,262	44	5	6,573
Public sector finance international	8	A	1,590	7	A	1,414
Public sector finance Germany	1	AAA	35	1	AAA	160
Public infrastructure	179	9	1,078	308	10	1,070
Transport & trade Finance	129	8	840	118	8	1,079
Utility & project Finance	96	7	3,024	95	7	3,058
Property risk	56	6	3,064	65	6	3,240
Retail portfolio	17	3	539	6	A	575
Funds (transaction and units)	14	2	4,090	11	2	2,753
Equity investments	125	8	133	86	7	105
Total result	**24**	**4**	**52,408**	**27**	**4**	**51,541**

[1] Positions with a default rating in classes 16 to 18 (as at 31.12.2011: €1,129m) are not taken into account when calculating the average probability of default.

The CVaR in the Group risk (confidence level 99.9%, risk horizon one year) was €1.55bn at year-end 2011 (end of 2010: €1.59bn). 40.1% of this amount (previous year: 31.6%) related to banks and other financial service providers. The CVaR attributed to German counterparties increased disproportionately; its share rose to 55.8% (end of 2010: 41.2%). However, the counterparty default risk for foreign counterparties and particularly for borrowers outside of Europe, decreased overall.

The provisions for loan losses reported in the balance sheet increased to €773.1m (previous year: €617.6m), largely as a result of higher specific valuation allowances for loans and securities. €694.1m was attributed to specific valuation allowances (previous year: €532.5m). Of this amount, €37.9m was related to Greece and €42.8m to exposures in Portugal. The portfolio valuation allowances for country risks (€13.7m) as well as portfolio valuation allowances for creditworthiness risks and provisions for portfolio risks (€63.1m) were only slightly different from the previous year's levels, while provisions for specific risks in off-balance sheet lending were, as in the previous year, negligible at €2.2m. The allocation of provisions for loan losses and securities to the segments is shown in figure 24.

Provisions for loan losses by risk segment *(Fig. 24)*

€m	Financial Institu-tions	Fonds	Transport & trade Finance	Utility & project Finance	Property risk	Public infra-structure	Public Finance	Equity invest-ments	Cor-porates	Other	31,12. 2011	31,12. 2010
Impaired gross loan volume [1]	**631.6**	**0.0**	**301.1**	**36.9**	**194.2**	**195.7**	**49.4**	**0.0**	**27.0**	**0.3**	**1,436.2**	**987.2**
Collateral at fair value	**0.3**	**0.0**	**183.5**	**0.0**	**99.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.2**	**283.0**	**231.8**
Impaired net loan volume [1]	**631.3**	**0.0**	**117.6**	**36.9**	**95.2**	**195.7**	**49.4**	**0.0**	**27.0**	**0.0**	**1,153.1**	**755.4**
Provisions for loan losses [2]	**421.6**	**0.0**	**82.6**	**45.5**	**120.7**	**27.8**	**38.3**	**0.0**	**36.5**	**0.1**	**773.1**	**617.6**
Specific valuation allowances	419.6	0.0	57.7	29.8	105.1	21.1	37.9	0.0	22.8	0.1	694.1	523.5
Provisions	0.0	0.0	1.9	0.0	0.0	0.0	0.0	0.0	0.3	0.0	2.2	7.0
Portfolio valuation allowances for country risks	0.0	0.0	13.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	13.7	15.1
Portfolio valuation allowances for creditworthiness risks	2.0	0.0	9.3	15.7	15.6	6.7	0.4	0.0	13.4	0.0	63.1	72.0

[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.

As collateral for the impaired individual exposures, securities were taken into account in the financial institutions risk segment; in the property risk segment, charges on property were essentially accounted for, and aircraft and ship mortgages as well as sureties were included for the transport & trade finance risk segment. Sureties were taken into account when determining portfolio valuation allowances for country risks. Collateral of sustainable value were included when determining portfolio valuation allowances for creditworthiness risks. The assets resulting from the utilisation of held collateral in the past financial year are recognised in the balance sheet in the amount of €32.3m and relate to a real estate property.

Operational risk

Roles and responsibilities of the management of operational risks

Due to the process-specific nature of operational risks (OR), DekaBank pursues a decentralised approach to identifying, assessing and managing them. This is based on the coordinated cooperation of the following units.

Board of Management

The Board of Management has the overall responsibility for the appropriate handling of operational risks in the DekaBank Group. In this respect, it is specifically responsible for defining the OR strategy, ensuring the required framework conditions for its Group-wide implementation and taking measures for OR management on the Group level.

Operational Risk Control unit

The Operational Risk Control unit is responsible for the key components of controlling operational risk in the Group. In particular, it has the decision-making authority with regard to the methodology applied to operational risks (conception and further development as well as monitoring the implementation and continuous utilisation of methods and procedures), the independent OR reporting (conception and further development of the reporting system; preparation of evaluations and analyses; providing the results to the Board of Management and the heads of the Group units) and the professional support of the infrastructure required for this.

Group units

The decentralised risk identification, measuring and management is carried out by the following functions within the individual Group units:

- Heads of the M1 units: implementation of the requirements specified in the OR strategy (in particular, provision of the budget and assignment of qualified employees); management of operational risks in the Group unit

- OR Manager: decentralised OR controlling (especially decentralised application of developed methods; ensuring consistent risk assessments and implementation of risk-reducing measures within the Group unit)

- Assessors: identification of OR loss scenarios within the scope of self assessments and estimation of potential loss amounts and frequency of losses

- Loss documenter: records OR loss cases which have actually occurred in the Group unit

Cross-divisional functions

In addition to the methods for which the Operational Risk Control unit is responsible in the Group, the following cross-divisional functions at DekaBank play an important role in identifying, assessing and managing operational risks:

- Group Audit

- Compliance

- Data Protection

- Data Security Management

- Corporate Security Management

- Complaint Management

For all of the above-mentioned functions, the interaction with the methods under the responsibility of the Operational Risk Control unit is regulated by means of ongoing comparison in a way that ensures consistency and the absence of overlaps of the results even in specific cases.

Instruments used for the management of operational risks

DekaBank uses the following methods and tools to manage operational risks:

Self Assessment

Self assessment is conducted annually and is based on detailed OR loss scenarios. In addition to describing and assessing the risks in terms of the loss amount involved and frequency of occurrence, appropriate risk-reducing measures are also identified in this context. DekaBank currently has approximately 1,200 individual scenarios.

Scenario analysis

The scenario analysis is used for the detailed examination and assessment of loss events arising from operational risks which cannot be adequately covered by the self-assessment process due to their comprehensive nature or their potentially high maximum loss. During this process, major risk drivers and influences on the course of the scenarios are identified, which can, in turn, also be used to monitor the risks as well as derive management-relevant impetuses. The assessment of the, at present, approximately 50 scenario analyses is reviewed on a quarterly basis.

Risk indicators

Factors which describe the state of the business environment or the internal control system are not monitored using an isolated method. Instead, such risk indicators are integrated into the assessment of the scenario analyses as regularly updated variables and therefore increase their risk sensitivity and facilitate the prompt identification of developments as well as the derivation of management measures.

Loss documentation

At DekaBank, all losses incurred throughout all of the Group units from operational risks that are above a minimum limit of €5,000 are ongoing recorded in a central loss database. Besides describing the loss, this also includes documentation of the causes and suitable measures to prevent future losses. Furthermore, the findings of the loss documentation are used to validate risk estimations within the scope of self assessments.

Quantification

DekaBank uses an advanced measurement approach (AMA) recognised by regulatory bodies to determine the economic capital for the operational risk. In doing so, the operational risk of the Bank is quantified based on a combination of self assessments, scenario analyses and internal as well as external loss data. The value-at-risk figures identified are incorporated into both the regulatory capital requirement as well as in the internal risk-bearing capacity analysis of the Group.

Stress tests for operational risks

The impact of stress scenarios for operational risks is considered at various levels. Unusual but plausible scenarios are included in the scenario analysis. At the same time, extreme events are also taken into account when determining the value-at-risk on the ex-post side by using external major damage and loss events with no scaling.

The effects of the newly defined macro-economic stress tests are also assessed with regard to operational risks.

Reporting of operational risks

The quarterly risk report informs the heads of the Group units about all key operational risks, thereby facilitating effective management. In addition, an aggregate report is submitted to the Board of Management. Alongside summarised information on operational risks in the Group, the report includes detailed information on the implemented and planned measures for 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.

Major developments in 2011

Methodology developments

In the past financial year, particular efforts were made to improve the cooperation of central OR methods and various cross-divisional functions on a methodology level. A comprehensive process to standardise the documentation and quantify fraud risks was established in cooperation with the newly introduced Fraud Prevention Forum. Furthermore, the process risks and related controls identified as part of the internal control system reporting were interlinked with the assessment of the OR loss scenarios. Finally, additional risk indicator reporting was implemented and rolled out across the Group, which helps the decentralised units identify the development of loss potentials of the scenario analyses at an early stage based on indicator changes.

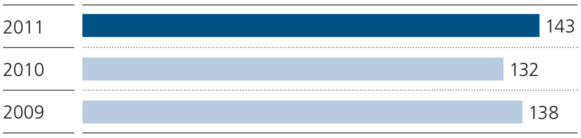
Furthermore, loss events at other institutes which have become public are used to review existing processes in terms of their suitability and appropriateness. By intensifying various control functions and expanding the reporting system, effective measures were taken to minimise the risk of similar cases occurring at DekaBank.

Current risk situation

The value-at-risk determined in accordance with the advanced measurement approach for operational risks (confidence level 99.9%, risk horizon one year) rose by 8% over the course of the financial year to €143m (end of 2010: €132m); (Fig. 25). The increase is largely due to the development of internal and external loss event data as well as the initial integration of the new business activities in Luxembourg.

Value-at-risk *(Fig. 25)*

(99.9%, 1 year), in €m



The potential losses from operational risks determined as part of the Group-wide risk inventory decreased slightly by 3.0% to €52.1m (end of 2010: €53.7m). As a result of the indicator effect of business environment factors, such as the higher equity market volatility and declining economic indicators, which are directly incorporated into the risk assessments, there was an initial considerable increase in the indicator over the course of the year. However, this development was balanced by the reduction in potential loss estimations for various successfully reduced risks as well as more precise mapping of specific risks using the more in-depth scenario analysis methodology.

Compliance

The DekaBank Group has a separate unit which ensures the stability, effectiveness and independence of the compliance function.

Its responsibilities comprise the prevention of money laundering and financing of terrorism as well as fraud and corruption. In addition, the unit ensures the Bank's compliance with duties and requirements for our capital market and real estate activities in accordance with securities trading legislation as well as with financial sanctions and embargoes. The Compliance unit provides ongoing advice to the specialist units in this regard and conducts audits related to compliance with statutory and regulatory requirements concerning compliance as well as the comprehensive compliance instructions.

The Compliance Officer submits a report to the Board of Management and Administrative Board at least once a year and is also the point of contact for supervisory authorities and other government offices.

The ongoing implementation and integration of the compliance requirements in general day-to-day business is intended to contribute to the transparent adherence with the compliance standards as well as to reinforcing trust amongst investors and the public and safeguarding customer interests. Furthermore, the compliance regulations also protect the employees and help maintain the DekaBank Group's good reputation in the market. The DekaBank Group's compliance concept is designed in a way that ensures efficient management of conflicts of interest.

Accounting-related internal control and risk management system

The Board of Management of DekaBank has overall responsibility for the internal control and risk management system. The system is based on a transparent group-wide organisational and control structure. The Finance unit is responsible for preparing and coordinating monthly, quarterly and annual financial statements. The units involved in the accounting process are appropriately staffed, in terms of both the number of personnel and their qualifications. Furthermore an open and cross-divisional communication policy makes an important contribution to minimising the risks associated with preparing financial statements.

In principle, risks arise in the accounting process, including through non-uniform use of posting, reporting and accounting standards, as a result of incorrect reporting of business transactions, and due to malfunctions and errors of the IT systems used in accounting.

DekaBank's internal control system ensures proper and efficient accounting by complying with the relevant statutory and legal provisions. Its key features are the consistent procedural integration of control activities and procedures, in particular on the basis of the dual control principle as well as risk-oriented division of responsibilities in the head office units. To this end, automated routine checks are performed and, when required, manual control and coordination procedures are also used, 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 as well and is implemented by an employee with supervisory responsibilities.

The Group guideline covers the reporting of business transactions on a centralised basis. The guideline describes key accounting facts and documents the uniform specialist procedure that applies throughout the entire Group. This ensures that the same business transaction is reported uniformly in different Group units and companies in compliance with the applicable accounting standards. Specific work instructions are used to implement the Group guideline at the operational level in the individual specialist departments and they also provide a description of the control mechanisms to be considered. Guidelines and authorisation concepts have been developed for the central systems which generate accounting information as part of the preparation of financial statements and compliance with these is regularly monitored by internal and external audits.

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

The internal control systems is regularly reviewed and tested by auditors as part of the audit of the consolidated financial statement.

Liquidity risk

Risk management and monitoring

DekaBank’s liquidity risk is managed and monitored as an independent risk category. The 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 Group.

In principle, liquidity risk is managed on a cross-portfolio and Group-wide basis by the Funding & Liquidity unit in the Treasury division. All product types are included. The central aims are to avoid liquidity bottlenecks even under stress conditions at the Group level, comprehensively ensure solvency at all times and generate positive profit contributions from liquidity management.

In accordance with the MaRisk requirements, it must be ensured that if the institute’s own (idiosyncratic) as well as market-wide (macro-economic) stress factors occur simultaneously, the liquidity is at least equally as high as the expected cash outflows. Over the short-term period of one week, only unused highly liquid securities are assigned to the liquidity potential. Over a period of one month, further unused and short-term assets which can be readily converted into cash can be included.

The planning, managing and monitoring liquidity is based on the liquidity status, various funding matrices under normal and stress conditions, the liquidity key ratios in line with the liquidity regulation, fund monitoring during the year as well as sufficient security liquidity reserves.

DekaBank defines liquidity risks that are recognised in income as economic effects which result from unfavourable changes in spreads related to closing potential refinancing gaps of up to one year. This is consistent with the risk-bearing capacity parameters if the relevant scenario for spread changes (99.9%) is selected.

DekaBank limits liquidity risk on the basis of the funding matrix relevant to management. This limitation does not allow for negative liquidity balances for a period of less than one year and thus risks from funding gaps that are recognised in income are not material at present. Accordingly, inclusion in the risk-bearing capacity is not required.

Quantifying liquidity risk

Liquidity status

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

Funding matrices

In addition, the liquidity position is analysed and monitored by the unit Risk Management Funding, Liquidity & ALM in the Corporate Centre Group Risk. To this end, we primarily examine the "Combined stress scenario" funding matrix (FM), which reproduces the simultaneous occurrence of both institute's own and market-wide stress factors. In this connection, the previously carried out management-relevant "Intended Holding Period" FM was replaced in this reporting year by the new "Combined stress scenario" FM, which accounts for the new requirements of the 3rd amended version of the MaRisk.

The purpose of the funding matrix is to show the undiscounted expected future cash flows across the portfolio as at the reporting date. In addition to these cash flows, the liquidity potential, which consists of highly liquid and liquid securities, is also considered. The liquidity balance for each maturity band is determined from the cash flows accumulated over time and the liquidity potential. Based on this, the liquidity requirement or surplus is determined under stress conditions for each maturity band in accordance with MaRisk.

The foundation of the model are cash flows based on legal maturities. This approach is based on the total sum of the legal net cash flows per maturity band. The gap between the legal perspective and the expected cash flows is bridged using modelling assumptions. The securities which can be used as a source for liquidity are taken into consideration in the liquidity potential. A difference is made between

- highly liquid securities which can be used as a source of liquidity from the very first day,
- liquid securities which can serve as a source of liquidity as of the second week and
- other securities which are available as a source of liquidity as of the second month.

The liquidity balance calculated from the accumulated liquidity potential and accumulated cash flows is managed using an early warning limit traffic light system and liquidity limits. This allows the investment potential available for each maturity band to be explicitly determined. The liquidity balance must be positive in all monitored maturities; the early warning limit is currently €1.5bn.

Within the scope of managing the liquidity position, the funding matrix is used on a daily basis in the Funding & Liquidity unit in the Treasury sub-division. Its application includes the strategic management of DekaBank's issuance activities in the money and capital markets as well as strategic asset allocation.

The unit Risk Management Funding, Liquidity & ALM in the Corporate Centre Group Risk is responsible for monitoring the liquidity risks based on the funding matrices as well as the methodical development and quality assurance of the procedures used in the scope of the funding matrices.

Stress scenarios

The "Combined stress scenario" funding matrix maps the liquidity situation of DekaBank under extreme stress conditions. In addition, we also consider specific stress scenarios separately as part of special funding matrices. We divide the underlying models into idiosyncratic and market-related scenarios.

Idiosyncratic scenarios affect DekaBank directly (for example downgrading of DekaBank's creditworthiness by rating agencies). With market-related scenarios, we focus on the impact of a funding or banking crisis. Depending on the stress scenario, various modelling assumptions are made.

Liquidity ratio under the Liquidity Directive

At DekaBank, liquidity risk mitigation measures are also guided by the liquidity requirements of the Liquidity Directive. The Liquidity Directive specifies the requirements of Section 11 (1), clause 1 of the German Banking Act (KWG), according to which financial institutes must be sufficiently liquid at all times. 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, for example 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, such as derivatives, are not included.

Reporting of liquidity risk

The above-mentioned funding matrices used for management and risk monitoring purposes are prepared at least every week by the Corporate Centre Group Risk as part of its independent monitoring process. They include a qualitative assessment of the liquidity situation by the Funding & Liquidity unit in the Treasury and are submitted to the full Board of Management, the ALMC and the heads of the Markets, Treasury and Group Risk units. In this regard, limits and traffic light system limits were defined on the basis of the liquidity balance (= accumulated liquidity gap plus accumulated liquidity potential), which are also monitored by the Corporate Centre Group Risk. 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 Finance.

Current risk situation

The DekaBank Group's potential liquidity that is readily convertible into cash remains at a high level even in stress scenarios. The Group can therefore utilise a high level of liquid securities, most of which are eligible as collateral for central bank borrowings, the available surplus cover in the cover pool and the corresponding repo transactions.

As at year-end, the accumulated liquidity balance of the DekaBank Group's "Combined stress scenario" funding matrix in the short term range (up to one week) amounted to €1.6bn. In the maturity band of up to one month, the surplus totalled €5.3bn and in the medium-to-long term range at three months it was €13.4bn. In all maturity bands of up to 20 years, the liquidity balances were clearly positive (Fig. 26).

Combined stress scenario fundig matrix of DekaBank Group as at 31 December 2011 [1] *(Fig. 26)*

€m	D1	> D1-1M	> 1M-12M	> 12M-5J	> 5J-20J	> 20J
Liquidity potential (accumulated)	17,743	22,510	2,594	– 112	– 16	– 16
Net cash flows (accumulated)	– 12,260	– 17,200	14,657	5,626	5,897	1,529
Liquidity balance	**5,484**	**5,310**	**17,251**	**5,514**	**5,881**	**1,512**
For information purposes:						
Net cash flows by legal maturity	–7,556	– 17,195	–9,188	–2,457	3,617	1,274

[1] The previous year's figures are not available due to switch to new funding matrix in the reporting year.

Overall, we have significantly exceeded the requirements of MaRisk. In accordance with the new regulatory definition, our highly liquid securities cover a potential cash outflow in the combined stress scenario across all maturity bands, instead of the specified month. DekaBank's liquidity position remains very strong even under the specific stress conditions. In the short term maturity band of up to one month, liquidity surpluses were shown in all stress scenarios considered.

The regulatory requirements of the Liquidity Directive were again clearly surpassed at all times during the reporting period. The annual average for the liquidity ratio of the first maturity band, determined on a daily basis, was 1.59 (previous year: 1.57). It was always within a range of 1.47 to 1.72. The figure at the close of the year was 1.59 (end 2010: 1.56).

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 primary risk factors are the assets under management and the amount of commission. The volatility of these risk factors is simulated for each asset class, i.e. for equities, bonds and property, using comparison indices. Parallel to this, scenarios are used to carry out a self-assessment of the material business risks for Asset Management activities. This allows the business divisions to counter the main identified business risks with risk-mitigating measures.

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

With a VaR of €432m (end of 2010: €427m), the business risk is only slightly above the previous year’s level.

Shareholding risk

The shareholding strategy is a component of the credit risk strategy. Equity investments (shareholdings) 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.

At €37m, the VaR related to the shareholding risk remained at the previous year’s level (end of 2010: €37m). Equity investment book values and volatility also remained at a stable level.

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 the relative changes in value of the property in the respective location. With a VaR of €7m, the property risk was of secondary importance, as was the case in the previous year.

Property fund risk

The property fund risk primarily results from property fund units held in the Bank’s own portfolio and here, especially from start-up finance. With a VaR of €18m (previous year: €15m), the property fund risk remained at a low level and did not represent any significant risk for DekaBank.

Capital market credit products

The capital market credit products section summarises the remaining positions of our former Liquid Credits portfolio. The portfolio is divided into two parts: the single name & index (SNI) sub-portfolio, which is invested in corporate bonds and CDS, and the securitisations sub-portfolio, which comprises the structured capital market credit securities of the former Liquid Credits portfolio. The SNI portfolio was allocated to the core business of DekaBank in the first quarter of 2009. Since then it has been part of the Treasury portfolio. The securitisations portfolio, however, was assigned to non-core business based on the fact that its position was no longer considered strategic. The strategy in relation to securitisation positions is therefore a managed reduction, while the SNI portfolio continues to be actively managed.

As the financial market crisis had a particular impact on the former Liquid Credits portfolio, we are presenting the development separately again in the following.

Volume development

The SNI portfolio essentially comprises single name and index CDS transactions, corporate bonds as well as transactions as part of long-term liquidity investment.

The nominal volumes of the SNI portfolio in the core business slightly decreased on the whole in the reporting year. The net nominal value fell by €200m to €6.3bn (end of 2010: €6.5bn). While the changes in the first 7 months were influenced by sales and maturities primarily in bonds (in total €791m gross nominal value), the last 5 months were marked by a selective portfolio reduction in CDS transactions (in total €410m). In these CDS transactions, the credit risk position corresponds to that of a bond position. Investments were made in blue chip companies with a maturity band of 3 years. In this segment, the CDS spreads are far greater than the comparable bond yields, but in comparison to a bond investment, no liquidity is tied-up.

The positions of the former Liquid Credits portfolio allocated to non-core business show a net nominal value of €1.9bn as at the 2011 reporting date (end of 2010: €2.2bn). Asset-backed securities (ABS), commercial mortgage-backed securities (CMBS), residential mortgage-backed securities (RMBS), collateralised loan obligations (CLO), synthetic collateralised debt obligations (index und bespoke), structured finance collateralised debt obligations (SFCDO) as well as constant proportion portfolio insurance (CPPI), which are not strategically important for DekaBank, are included in the non-core business. The lower volume is primarily due to the complete repayments on several securitisation transactions as well as various partial repayments. The volume will continue to be decreased over the coming years both through the planned reduction while safeguarding assets at the same time and the scheduled expiry of transactions. No new business will be entered into.

Management, monitoring and limiting

As with all other credit transactions, the Corporate Centre Credit Risk Office assumes the role of the administration office for the early identification of risks. This office is also responsible for the market-independent second recommendation and for monitoring transactions at the individual transaction level.

In line with DekaBank's current corporate credit risk strategy, limit monitoring is carried out independently and on a daily basis by the Corporate Centre Group Risk for the remaining structured capital market credit products. Any limit overruns are immediately reported to the full Board of Management.

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

Approach and valuation

The valuation of capital market credit products categorised at fair value is largely market-oriented. We only continue to use a modified discounted cash flow model to determine the fair value for 75 non-synthetic securitisation transactions in non-core business with a nominal volume of €0.78bn as at the 2011 year-end. These transactions are exclusively European securitisations or securitisations with a distinct European focus.

Accordingly, any changes in the positions categorised at fair value are reported directly in the income statement. No actual defaults have occurred in the tranches to date. Models and indicative prices from pricing service agencies were used to establish the book value of assets in the at fair value category. The book values of loans and receivables (lar) positions are determined on the basis of amortised costs. No specific valuation allowance was required for any of these positions as part of an impairment test. With regard to afv positions, no nominal and interest defaults occurred.

In the SNI portfolio, the CDS positions and the major share of the afv bonds are valuated at market price. A share of the portfolio has been classified as held to maturity and is therefore valuated at amortised cost.

Rating overview

As at year-end, the SNI portfolio shows overall good creditworthiness almost exclusively in the investment grade range. Nevertheless, in light of the European national debt crisis, we recorded some downgrades in individual bank bonds as well as a Greek bond (€50m) into the non-investment grade range. Individual downgrades were also recorded within the non-investment grade range. Downgrades prevailed in the investment grade range as well.

Within the portfolio of structured capital market credit products allocated to the non-core business, specific positions were also downgraded in the reporting period, some of which do not currently have any investment grade rating. The majority of the portfolio do, however, carry a good rating; with 87.1% (end of 2010: 88.2%) of the ratings in the investment grade range as at the 2011 reporting date. The slight reduction in comparison to the previous year was the result of higher repayments in the positions with good and very good ratings as compared to the positions with non-investment grade ratings.

The rating overview for non-core business 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. 27).

Structured capital market credit products by rating class (nominal value in €m) *(Fig. 27)*

Product		AAA	AA	A	BBB	Non investment grade	Unrated	Total (previous year)
Structured	ABS	31	18	35	4	69	0	157 (277)
	RMBS	154	110	152	47	5	0	467 (554)
	CMBS	172	68	232	64	25	0	561 (604)
	CLO	7	286	125	52	68	0	538 (562)
	CSO	0	0	0	0	75	0	75 (75)
	Structured finance CDO	0	20	10	0	0	0	30 (30)
Alternative	CPPI	0	0	50	0	0	0	50 (100)
Total		**363**	**501**	**604**	**168**	**242**	**0**	**1,878 (2,201)**

Country overview

The SNI portfolio as well as the remaining structured capital market credit products of the non-core business continue to focus on Western Europe.

A total of 79.6% of the securitisations in the European market were attributed to the latter. With regard to CMBS, a large proportion were UK securitisations, as is the case with the market distribution. The only noteworthy positions outside of Europe are CLO and CSO securitisation transactions as well as CPPIs (Fig. 28).

Structured capital market credit products by risk country (nominal value in €m) *(Fig. 28)*

Product	Structured						Alternative	Total
Country	ABS	RMBS	CMBS	CLO	CSO	Structured finance CDO	CPPI	(previous year)
Germany	46	16	148	0	0	0	0	211 (325)
UK	14	125	228	17	0	0	0	384 (414)
Spain	2	100	0	0	0	0	0	102 (112)
Italy	39	128	13	0	0	0	0	180 (198)
Benelux	8	42	172	0	0	0	0	222 (279)
Skandinavia	0	0	0	0	0	0	0	0 (22)
Rest of Europe	11	57	0	308	0	20	0	396 (421)
USA	36	0	0	213	75	10	50	384 (381)
Other/global	0	0	0	0	0	0	0	0 (50)
Total	**157**	**467**	**561**	**538**	**75**	**30**	**50**	**1,878 (2,201)**

As at year-end, around 47% of positions in the core business were attributable to the financial sector. The positions of the SNI portfolio are almost exclusively denominated in euros, and thus currency effects are negligible.

Maturity profile

The average maturity profile of the SNI portfolio shortened further in the reporting year. At year-end, all positions showed an average maturity of 3.9 years (end of 2010: 4.9 years). A differentiated picture arises in relation to the various products and IFRS categories in the SNI portfolio. In the positions of the IFRS held to maturity (htm) category, the average maturity was 5.5 years (end of 2010: 6.5 years). The CDS had an average maturity of 3.7 years for the security party and 2.4 years for the collateral provider. The transactions within the scope of the liquidity investment will expire in approximately 3.5 years.

In addition to legal final maturity, securitised products still in the portfolio as part of the non-core business feature an expected maturity since the actual cash flow may differ from the forecast cash flow. At the close of the year, the expected remaining maturity of the positions is almost 4.4 years.

Current risk situation

Based on a confidence level of 95% and a holding period of ten days as at the reporting date, the spread risk for the positions of the former Liquid Credits portfolio totalled €28.8m (previous year: €36.3m). As a result, the VaR calculated for the SNI portfolio is €24.2m (previous year €26m). In this regard, it must be considered that since the 4th quarter of 2011, DekaBank has been showing the VaR including the positions which are categorised as htm or lar in accordance with the IFRS.

Despite increasing volatilities in the bond and CDS market, risk was reduced over the course of the year, primarily in the second half of the year through the portfolio reduction.

This particularly applies to the securitisation positions of the former Liquid Credits portfolio allocated to the non-core business. For this, the VaR amounted to €14.9m as at the reporting date, including the securities positions categorised as htm and lar in accordance with IFRS. The corresponding comparative figure at the end of 2010 was €25.5. As a result, in addition to the portfolio reduction, this market segment still has a comparatively low volatility.

Annual financial statements

Balance sheet as at 31 December 2011

Assets	€	€	€	31.12.2011 €	31.12.2010 €'000
1. Cash reserves					
a) Cash on hand			205,493.58		14
b) Balances with central banks			245,602,079.10	245,807,572.68	511,792
of which: with Deutsche Bundesbank	245,602,079.10				(511,792)
2. Due from banks					
a) due on demand			7,637,098,708.89		5,441,394
b) other claims			23,357,306,813.43	30,994,405,522.32	26,970,957
of which: public sector loans	8,731,851,221.91				
3. Due from customers				19,179,860,402.35	20,351,527
of which:					
mortgage loans	589,497,210.43				(432,797)
public sector loans	4,394,629,368.32				(5,583,824)
other loans secured by mortgages	30,455,402.83				(433,757)
4. Bonds and other fixed-interest securities					
a) Money market securities					
aa) from other issuers		0.00	0.00		640,198
of which: eligible as collateral with Deutsche Bundesbank	0.00				(640,198)
b) Bonds and debt securities					
ba) from public sector issuers		1,521,129,390.05			1,648,660
of which: eligible as collateral with Deutsche Bundesbank	1,394,966,157.03				(1,518,284)
bb) from other issuers		9,653,902,414.23	11,175,031,804.28		11,336,440
of which: eligible as collateral with Deutsche Bundesbank	5,809,894,778.73				(7,507,578)
c) own bonds			556,949,770.88	11,731,981,575.16	1,262,083
Nominal amount	551,828,594.00				(1,219,949)
5. Shares and other non fixed-interest securities				3,929,806,290.01	3,964,643
6. Trading portfolio				65,682,940,340.18	58,839,736
7. Equity investments				61,327,833.62	62,204
of which: in banks	2,789,404.99				(2,789)
8. Shares in affiliated companies				368,194,606.05	368,195
of which:					
in banks	72,158,448.57				(69,175)
in financial services providers	11,687,450.00				(11,687)
9. Trust assets				210,053,976.53	206,239
10. Intangible assets					
a) Concessions, industrial property rights, and similar rights and values as well as licences there to, acquired for a consideration			33,110,485.17		7,182
b) Advance payments			5,265,286.96	38,375,772.13	0
11. Tangible assets				19,619,046.55	21,033
12. Other assets				280,073,325.39	124,900
13. Prepaid expenses and accrued income					
a) from underwriting and lending business			47,427,991.54		66,830
b) other			25,938,974.25	73,366,965.79	31,572
14. Excess of plan assets over pension liabilities				7,087,552.20	14,102
Total assets				**132,822,900,780.96**	**131,869,701**

Liabilities	€	€	€	31.12.2011 €	31.12.2010 €'000
1. Due to banks					
a) due on demand			3,917,082,396.51		2,304,543
b) with agreed maturity or period of notice			16,861,577,058.70	20,778,659,455.21	12,585,298
of which: registered public sector Pfandbriefe	2,439,035,133.21				(2,619,729)
2. Due to customers					
Other liabilities					
a) due on demand			4,805,854,862.96		3,321,749
b) with agreed maturity or period of notice			15,300,830,043.57	20,106,684,906.53	14,008,690
of which: registered public sector Pfandbriefe	5,837,595,503.62				(6,973,211)
3. Securitised liabilities					
a) bonds issued			31,892,079,821.19		33,918,555
of which:					
mortgage Pfandbriefe	45,449,490.42				(30,149)
public sector Pfandbriefe	7,919,943,959.14				(8,800,997)
b) other securitised liabilities			1,058,214,192.05	32,950,294,013.24	753,585
of which: money market paper	1,058,214,192.05				
4. Trading portfolio				53,417,270,414.57	58,623,753
5. Trust liabilities				209,918,722.16	206,239
6. Other liabilities				830,768,270.76	722,886
7. Accruals and deferred income					
a) from underwriting and lending business			28,369,553.93		41,483
b) other			11,925,321.78	40,294,875.71	6,250
8. Provisions					
a) provisions for pensions and similar obligations			267,237.45		12,032
b) provisions for taxes			185,022,491.94		183,418
c) other provisions			466,938,702.27	652,228,431.66	537,895
9. Subordinated liabilities				822,103,195.78	822,123
10. Profit participation capital				78,000,000.00	78,000
of which:					
due in less than two years	58,000,000.00				(58,000)
11. Fund for general banking risks				1,770,381,583.10	2,521,168
of which:					
special item pursuant to Section 340e (4) HGB	35,906,000.00				(15,408)
12. Equity					
a) Subscribed capital					
aa) subscribed capital		191,729,340.56			286,323
ab) silent capital contributions		552,360,457.03	744,089,797.59		552,360
b) Capital reserve			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		114,068,590.47	165,352,188.74		114,069
d) Accumulated profit			67,488,727.88	1,166,296,912.24	28,632
Total liabilities				**132,822,900,780.96**	**131,869,701**

1. Contingent liabilities					
Liabilities from guarantees and warranty agreements				2,030,382,273.35	1,637,456
2. Other liabilities					
Irrevocable lending commitments				1,651,141,103.93	2,294,847

Income statement for the period 1 January to 31 December 2011

Expenses and income	€	€	€	2011 €	2010 €'000
1. Interest income from					
a) Lending and money market transactions		3,928,159,012.67			2,841,676
b) Fixed-income securities and debt register claims		453,600,296.30	4,381,759,308.97		505,085
2. Interest expenses			4,244,481,174.99	137,278,133.98	3,122,879
3. Current income from					
a) Shares and other non fixed-interest securities			85,631,722.78		35,912
b) Equity investments			3,119,524.04		2,090
c) Shares in affiliated companies			245,021,505.26	333,772,752.08	226,127
4. Income from profit pooling, profit transfer and partial profit transfer agreements				108,253,507.32	144,312
5. Commission income			769,892,613.03		848,431
6. Commission expenses			578,203,599.54	191,689,013.49	658,713
7. Net income/expenses from trading portfolio				184,472,521.33	138,665
8. Other operating income				337,329,212.43	305,126
9. General administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		209,008,773.75			237,923
ab) Social security contributions and expenses for pensions and other employee benefits		38,536,638.09	247,545,411.84		39,653
of which: for retirement pensions	12,901,201.80				(15,460)
b) Other administrative expenses			383,776,099.76	631,321,511.60	327,385
10. Write-downs and valuation allowances on intangible assets and tangible assets				10,029,452.94	7,247
11. Other operating expenses				53,246,338.39	103,009
12. Write-downs and valuation allowances on claims and certain securities and allocations to provisions for loan losses				201,766,055.80	0
13. Income from write-ups to claims and certain securities and from reversals of provisions for loan losses				0.00	188,583
14. Allocations to the fund for general banking risks				128,224,685.87	533,835
15. Write-downs and valuation allowances on equity investments, shares in affiliates and securities held as fixed assets				79,666,299.99	6,168
16. Expenses due to assumption of losses				17,991,895.46	15,093
17. Profit or loss on ordinary activities				170,548,900.58	184,102

Expenses and income				2011	2010
	€	€	€	€	€'000
18. Extraordinary income			0.00		13,640
19. Extraordinary expenses			0.00		29,182
20. Extraordinary result			0.00	0.00	– 15,542
21. Income taxes				45,283,946.69	82,837
22. Income transferred under profit pooling, profit transfer or partial profit transfer agreements				57,776,226.01	27,426
23. Net income				67,488,727.88	58,297
24. Transfers to retained earnings					
a) to other retained earnings				0.00	29,665
25. Accumulated profit				67,488,727.88	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 2011 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). The provisions of the Pfandbrief Act were also taken into account. The balance sheet structure prescribed for commercial banks was expanded to include line items relating to banks active in the Pfandbrief business.

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 HGB applicable for genuine repurchase agreements, whereby lent securities are shown under the original line items in the balance sheet. 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 in both the trading and non-trading portfolios 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).

Financial instruments in the trading portfolio are valued at fair value less a risk mark-down. The mark-down is determined separately per portfolio in the form of the value-at-risk (VaR discount) and subsequently aggregated. The VaR calculation is based on a confidence level of 99% and a holding period of 10 days. The monitoring period amounts to 250 days. Trading portfolios on the assets and liabilities sides were valued at average prices.

On-balance sheet and off-balance sheet interest rate financial instruments in the banking book, which are allocated to the interest book, are valued as a valuation object. Where, in their entirety, the interest book transactions valued pose a threat of excess liability, a provision is recognised for possible losses from pending transactions. The valuation is carried out on the basis of net present values including risk and administration costs. The recognition of a provision was not required.

Claims and commitments arising from derivative financial instruments in the banking book, which are not allocated to the interest book, were valued in line with the imparity principle. For unrealised valuation losses, provisions were recognised for possible losses from pending transactions. Unrealised valuation gains were not recognised as income.

Trading raises money in the external market for funding purposes. In addition, Trading also carries out refinancing via internal transactions for tax purposes. Liabilities arising from these transactions are reported on the liabilities side under trading portfolio.

In addition to the valuation results, the line item net income from trading portfolio includes ongoing interest payments and dividend income from securities in the trading portfolio, ongoing payments from derivative financial instruments and securities repurchase agreements and securities lending transactions in the trading portfolio, as well as the refinancing costs attributable to the trading portfolios including the corresponding deferrals.

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 (2) of the Income Tax Act (EStG) are written off in the year of acquisition in accordance with tax regulations.

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. These securities are continually checked for impairment.

Currency translation

Assets and liabilities in foreign currency as well as claims and commitments from foreign exchange transactions in the non-trading portfolio were translated and valued according to the regulations contained in Section 340h in conjunction with Section 256a HGB. The results from the currency translation were in principle recognised in the income statement and reported in other operating income. Only income from foreign exchange transactions, which are not included in any particular cover or valuation unit and also have a remaining maturity of more than one year, was not recognised. Swap premiums from foreign exchange transactions in the non-trading portfolio were accrued on a pro rata basis and reported in net interest income.

Special cover is in place if cover is available in the same currency, i.e. only transactions in the same currency are grouped in currency positions. Furthermore, matching amounts for the covering transaction and covered transaction constitute a defining characteristic of special cover. There is no special cover in place if currency transactions or foreign exchange positions (for example for trading purposes) are concluded and generate an open FX position.

Assets and liabilities in foreign currency in the trading portfolio as well as claims and obligations under foreign exchange transactions were translated and valued in accordance with the provisions stipulated in Section 340e HGB. The results from the currency translation are reported in net income or net expenses in the trading portfolio.

Provisions for loan losses

Identified default risks in the lending business and 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 and provisions for loan losses have been deducted from the respective asset items.

Loan receivables are checked individually for impairment. 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. In the reporting year, DekaBank changed the procedure for determining general valuation allowances. The alignment with the expected loss method ensures a more adequate reflection of latent risks. The expenses resulting from the switchover were recognised in the item “Write-downs and valuation allowances on receivables and certain securities and allocations to provisions for loan losses”.

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 of insolvency procedures;
- Failure of reorganisation measures.

Provisions

For pension commitments, the extent of the obligation is valued by independent actuaries, whereby the net present value of the pension claims earned are determined in accordance with the projected unit credit method. For fund-linked pension commitments, the level of which is determined exclusively in accordance with the fair value of the corresponding fund assets, the pension commitments are stated at the fair value of the underlying funds where this value exceeds an agreed minimum amount.

In accordance with Section 246(2) HGB, cover assets, which have to be netted out, were created for the company retirement pensions of DekaBank in the form of a Contractual Trust Arrangement (CTA). The cover assets are held by a legally independent trustee – Deka Trust e.V. The cover assets for the fund-based defined contribution plans consist primarily of fund assets allocated per individual employee and other assets to cover the biometric risks arising from benefits becoming due early and the additional financing risk. In addition, commitments under final salary plans and general contribution schemes were funded through the creation of cover assets using a CTA. This section of the cover assets is invested in a special fund with an investment strategy based on an integrated asset liability assessment. The cover assets are measured at fair value and reduce the pension provisions shown in the balance sheet. The expected income from the cover assets is offset against the expenses for adding interest to pension commitments.

Commitments for early retirement and transitional payments are also valued actuarially and provision is made in the amount of the present value of the commitment. Furthermore, employees of DekaBank also have the option of paying into working hours accounts. The accounts are maintained in money and covered by cover assets in Deka Trust e.V. The amount carried in the balance sheet is the difference between the extent of the commitments and the fair value of the cover assets. Provisions for early retirement and transitional payments as well as for working hours accounts are reported under “Other provisions”.

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

3 Derivative transactions

DekaBank uses derivative financial instruments for trading purposes and to hedge interest rate risks, currency risks and other price risks.

The following table shows the portfolio of derivative financial instruments in the trading and non-trading portfolios:

Derivative transactions – volume – trading portfolio

	Nominal values		Full fair values positive market values	Full fair values negative market values
€m	**31.12.2011**	**31.12.2010**	**31.12.2011**	**31.12.2011**
Interest rate risks				
Interest rate swaps	484,840.5	505,675.9	8,578.0	8,236.1
Forward rate agreements	21,992.0	63,418.0	6.3	2.2
Interest rate options				
Purchases	716.9	459.5	4.0	1.2
Sales	1,461.4	1,526.4	1.3	49.2
Caps, floors	1,320.5	1,191.1	11.0	6.7
Stock exchange traded contracts	17,697.0	7,245.6	2.2	6.4
Other interest rate forward transactions	2,961.9	3,396.2	110.3	213.8
Total	**530,990.2**	**582,912.7**	**8,713.1**	**8,515.6**
Currency risks				
Forward exchange transactions	3,376.6	4,294.3	2.8	119.4
Currency swaps, interest rate currency swaps	1,173.7	1,076.9	36.4	35.4
Total	**4,550.3**	**5,371.2**	**39.2**	**154.8**
Share and other price risks				
Share forward transactions	451.6	766.4	12.8	16.9
Share options				
Purchases	6,082.2	7,737.1	4,288.3	—
Sales	2,855.1	3,987.5	—	6,914.5
Stock exchange traded contracts	89,569.2	83,141.5	6,232.1	10,913.6
Other forward transactions	12,175.8	12,584.2	244.8	323.6
Total	**111,133.9**	**108,216.7**	**10,778.0**	**18,168.6**
Overall total	**646,674.4**	**696,500.6**	**19,530.3**	**26,839.0**

Derivative transactions – classification by maturities (nominal values) – trading portfolio

	Interest rate risks		Currency risks		Share and other price risks	
€m	**31.12.2011**	**31.12.2010**	**31.12.2011**	**31.12.2010**	**31.12.2011**	**31.12.2011**
Residual term to maturity						
less than 3 months	131,861.7	188,806.1	1,333.5	951.9	7,565.9	4,918.6
from 3 months to 1 year	158,966.1	145,759.7	2,042.1	3,334.8	36,643.1	17,170.2
from 1 year to 5 years	152,346.6	171,939.9	310.2	200.6	53,529.2	80,800.7
more than 5 years	87,815.8	76,407.0	864.5	883.9	13,395.7	5,327.2
Total	**530,990.2**	**582,912.7**	**4,550.3**	**5,371.2**	**111,133.9**	**108,216.7**

Derivative transactions – classification by counterparties – trading portfolio

	Nominal values		Full fair values positive market values	Full fair values negative market values
€m	**31.12.2011**	**31.12.2010**	**31.12.2011**	**31.12.2011**
Banks in the OECD	505,558.1	566,212.4	8,106.6	8,182.7
Public sector entities in the OECD	4,396.4	4,109.1	129.6	32.9
Other counterparties	136,719.9	126,179.1	11,294.1	18,623.4
Total	**646,674.4**	**696,500.6**	**19,530.3**	**26,839.0**

Derivative transactions – volume – non-trading portfolio

	Nominal values		Full fair values positive market values	Full fair values negative market values
€m	**31.12.2011**	**31.12.2010**	**31.12.2011**	**31.12.2011**
Interest rate risks				
Interest rate swaps	83,564.7	85,697.1	2,555.7	2,817.9
Forward rate agreements	—	2,000.0	—	—
Interest rate options				
Purchases	—	150.0	—	—
Sales	—	—	—	—
Stock exchange traded contracts	158.7	120.6	—	1.0
Other interest rate forward transactions	111.6	165.0	—	24.4
Total	**83,835.0**	**88,132.7**	**2,555.7**	**2,843.3**
Currency risks				
Forward exchange transactions	5,370.9	6,318.0	124.8	16.5
Currency swaps, interest rate currency swaps	9,446.3	10,020.4	303.6	1,011.1
Total	**14,817.2**	**16,338.4**	**428.4**	**1,027.6**
Share and other price risks				
Share options				
Purchases	30.6	—	10.0	—
Sales	—	—	—	—
Stock exchange traded contracts	227.9	113.2	6.3	36.3
Other forward transactions	1,655.0	1,603.5	64.5	9.8
Total	**1,913.5**	**1,716.7**	**80.8**	**46.1**
Overall total	**100,565.7**	**106,187.8**	**3,064.9**	**3,917.0**

Derivative transactions – classification by maturities (nominal values) – non-trading portfolio

	Interest rate risks		Currency risks		Share and other price risks	
€m	**31.12.2011**	**31.12.2010**	**31.12.2011**	**31.12.2010**	**31.12.2011**	**31.12.2011**
Residual term to maturity						
less than 3 months	17,985.9	15,682.2	3,023.1	2,626.8	69.2	123.2
from 3 months to 1 year	11,380.1	12,440.5	4,448.5	5,629.9	263.5	145.0
from 1 year to 5 years	42,842.2	44,621.3	5,182.2	6,059.2	1,349.8	916.5
more than 5 years	11,626.8	15,388.7	2,163.4	2,022.5	231.0	532.0
Total	**83,835.0**	**88,132.7**	**14,817.2**	**16,338.4**	**1,913.5**	**1,716.7**

Derivative transactions – classification by counterparties – non-trading portfolio

	Nominal values		Full fair values positive market values	Full fair values negative market values
€m	**31.12.2011**	**31.12.2010**	**31.12.2011**	**31.12.2011**
Banks in the OECD	89,633.8	96,654.9	2,620.8	3,642.2
Other counterparties	10,931.9	9,532.9	444.1	274.8
Total	**100,565.7**	**106,187.8**	**3,064.9**	**3,917.0**

The market values of stock exchange traded contracts are shown before offsetting with the variation margin paid or received respectively.

The derivative financial instruments shown in the tables above are exposed to both market price risks and credit risks. Market price risks describe the potential financial loss caused by future market parameters fluctuations. Market price risks comprise interest rate risks (including credit spread risks), currency risks and share price risks. 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. Further information can be found in the risk report which forms part of the Management Report.

4 Statement of subsidiaries and equity investements in accordance with Section 285 No. 11 HGB

Name, location	**Equity interest in %**	**Equity [1] €'000**	**Result [2] €'000**
Shares in affiliated companies			
DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg	100.00	398,926.2	242,851.0
Deka Investment GmbH, Frankfurt/Main	100.00	83,174.4	77,085.5 [3]
Deka Immobilien GmbH, Frankfurt/Main	100.00	36,726.6	1,162.1 [3]
Deka Immobilien Investment GmbH, Frankfurt/Main	100.00	31,245.1	30,003.3 [3]
Deka Grundstücksverwaltungsgesellschaft I (GbR), Frankfurt/Main	100.00	18,683.4	60.7
ETFlab Investment GmbH, Munich	100.00	10,008.7	–5,582.3 [3]
Deka Real Estate Lending k.k., Tokyo	100.00	3,840.8	796.8
Deutsche Landesbankenzentrale AG, Berlin	100.00	1,480.3	21.4
Gesellschaft für Mittelstandskreditfonds der Sparkassen-Finanzgruppe mbH, Frankfurt/Main	100.00	1,066.9	66.9
Deka Beteiligungsgesellschaft mbH, Frankfurt/Main	100.00	978.1	11.0
Deka Investors Investment AG (Teilgesellschaftsvermögen Unternehmensaktien), Frankfurt/Main	100.00	296.2	–2.8
DKC Deka Kommunal Consult GmbH, Düsseldorf	100.00	203.2	–1,165.7 [3]
Deka Treuhand GmbH, Frankfurt/Main	100.00	66.9	3.3
Deka Vermögensverwaltungs GmbH, Frankfurt/Main	100.00	65.4	2.6 [3]
STIER Immobilien AG, Frankfurt/Main	100.00	49.7	0.1
LBG Leasing Beteiligungs-GmbH, Frankfurt/Main	100.00	32.5	–0.1
Deka Treuhand Erwerbsgeselllschaft mbH, Frankfurt/Main	100.00	25.0	7.1 [3]

Name, location	Equity interest in %	Equity [1] €'000	Result [2] €'000
Deka Vorratsgesellschaft 01 mbH, Frankfurt/Main	100.00	25.0	–0.1 [3]
Deka Verwaltungs GmbH, Frankfurt/Main	100.00	22.0	0.2
Deka International (Ireland) Ltd., Dublin i.L.	100.00	–	–
WestInvest Gesellschaft für Investmentfonds mbH, Düsseldorf	99.74	11,338.6	–11,236.7 [3]
WIV GmbH & Co. Beteiligungs KG, Frankfurt/Main	94.90	12,881.3	781.3
WIV Verwaltungs GmbH, Frankfurt/Main	94.90	52.5	0.1
Deka(Swiss) Privatbank AG, Zurich	80.00	43,690.3	2,906.3
Equity investments			
Sparkassen-PensionsManagement GmbH, Cologne	50.00	122,308.5	–2,376.3
Deka-Neuburger Institut für wirtschaftsmathematische Beratung GmbH, Frankfurt/Main	50.00	21.0	–2.1
Dealis Fund Operations GmbH, Frankfurt/Main	49.90	20,196.8	1,062.3
S Broker AG & Co. KG, Wiesbaden	30.64	27,547.4	119.2
Indirect equity investments			
Deka International S.A., Luxembourg	100.00	242,144.4	164,681.0
VM Bank International S.A., Luxembourg	100.00	44,136.5	62,105.0
International Fund Management S.A., Luxembourg	100.00	32,039.9	22,380.6
Roturo S.A., Luxembourg	100.00	3,028.6	–7.1
Deka Multi Asset Investors Luxembourg, Luxembourg	100.00	1,284.8	7.7
Deka Loan Investors Luxembourg I, Luxembourg	100.00	1,287.4	6.3
Deka Loan Investors Luxembourg II, Luxembourg	100.00	1,287.4	6.3
Deka Immobilien k.k., Tokyo	100.00	586.0	–62.9
Banking Services Luxembourg S.à.r.l., Luxembourg	100.00	397.7	–40.5
Deka Immobilien Luxembourg S.A., Luxembourg	100.00	222.6	–40.3
Deka Immobilien Beteiligungsgesellschaft mbH, Frankfurt/Main	100.00	135.4	6.4
Perfeus S.A., Luxembourg	100.00	40.7	1.7
Datogon S.A., Luxembourg	100.00	37.1	1.3
Europäisches Kommunalinstitut S.à.r.l., Luxembourg	100.00	15.8	—
Sparkassen Pensionskasse AG, Cologne	50.00	71,588.9	2,821.7
Sparkassen Pensionsfonds AG, Cologne	50.00	8,433.8	–152.6
Luxembourger Leben S.A., Luxembourg	50.00	5,242.3	–1,680.4
Sparkassen PensionsBeratung GmbH, Cologne	50.00	100.0	—
Heubeck AG, Cologne	45.00	4,716.4	556.6
Compendata Gesellschaft zur Verwaltung von Vorsorgeeinrichtungen mbh, Cologne	45.00	90.3	22.8
Richttafeln-Unterstützungskasse GmbH, Cologne	45.00	69.3	0.6
Dr. Heubeck Ges. mbH, Vienna	45.00	69.0	37.8
Heubeck Richttafeln GmbH, Cologne	45.00	34.0	43.2
S Broker Management AG, Wiesbaden	30.64	58.6	11.5

[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

5 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.

6 Other financial commitments

There are contribution commitments amounting to €0.1m with regard to companies in which the Bank has invested (previous year: €0.1m).

There is an obligation to put up additional capital amounting to €20.9m for Liquiditäts-Konsortialbank GmbH, Frankfurt/Main (previous year: €20.9m).

There is an obligation to put up additional capital amounting to €3.7m for Deka-S-PropertyFund No.1 Beteiligungs GmbH & Co. KG, Frankfurt/Main as well as an additional capital amount of €5.1m 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 €59.6m (previous year: €80.8m). The German Sparkassen-Finanzgruppe, and thus also the security reserve of the Landesbanken and central savings banks, has declared that it is in principle willing to participate in the restructuring of WestLB. The exact details of the participation need to be finalised. The relevant resolutions are expected in 2012.

Notes to the balance sheet

7 Due from banks

€m	31.12.2011	31.12.2010
This item includes:		
Loans to		
affiliated companies	271.3	44.2
companies in which an interest is held	–	3,753.3
Subordinated loans	–	–
Sub item b. (other claims) – breaks down according to residual term to maturity as follows:		
less than three months	4,881.2	5,281.7
from three months to one year	2,571.5	2,886.9
from one year to five years	13,712.3	16,219.7
more than five years	2,192.3	2,582.7
	23,357.3	**26,971.0**
Used as cover funds	**10,936.6**	**13,068.2**

8 Due from customers

€m	31.12.2011	31.12.2010
This item includes:		
Loans to		
affiliated companies	129.5	167.5
companies in which an interest is held	15.2	16.3
Subordinated loans	–	–
This item breaks down by residual term to maturity as follows:		
with indefinite term to maturity	41.8	44.3
less than three months	999.4	1,306.5
from three months to one year	2,406.9	1,929.8
from one year to five years	10,029.8	11,415.3
more than five years	5,702.0	5,655.6
	19,179.9	**20,351.5**
Used as cover funds	**4,987.5**	**5,471.0**

9 Bonds and other fixed-interest securities

€m	31.12.2011	31.12.2010
The marketable securities comprising this item include:		
listed	10,247.8	12,632.6
unlisted	1,484.2	2,254.8
Subordinated securities	**29.5**	**28.7**
Due within one year	**630.5**	**2,848.0**
Used as cover funds	**2,482.2**	**2,801.6**
Book value of securities valued according to the diluted lower of cost or market principle	3,920.5	4,704.0
Book value of securities reported at more than fair value	2,214.5	2,722.5
Market value of securities reported at more than fair value	1,995.7	2,571.0

The Bank intends to hold those securities allocated to the “Securities held as fixed assets” category on a permanent basis. The current value fluctuations are not assessed as permanent and repayment in full is expected on maturity.

10 Shares and other non-fixed interest securities

€m	31.12.2011	31.12.2010
The marketable securities comprising this item include:		
listed	8.2	10.2
unlisted	991.7	1,136.9
Subordinated securities	**–**	–

11 Trading portfolio (assets)

This item breaks down as follows:

€m	31.12.2011	31.12.2010
Derivative financial instruments	19,471.4	19,173.7
Receivables	23,432.0	15,716.1
Bonds and other fixed-interest securities	21,482.7	21,203.6
Shares and other non fixed-interest securities	1,323.8	2,764.6
Other assets	1.1	2.0
Risk mark-down	–28.1	–20.3
	65,682.9	**58,839.7**

12 Equity investments

As in the previous year, this item does not include any marketable securities.

13 Shares in affiliated companies

As in the previous year, this item does not include any marketable securities.

14 Trust assets

The reported trust assets comprise amounts due from banks of €97m and amounts due from customers of €113m.

15 Tangible assets

€m	31.12.2011	31.12.2010
This item includes:		
Land and buildings used for the Bank's business activities	2.8	2.9
Office equipment	16.8	18.1

16 Changes in fixed assets

€m						Book value	
Asset items	**Cost of acquisition/ production**	**Additions**	**Disposals**	**Accumulated depreciation/ amortisation**	**Deprecition/ amortisation for the year**	**31.12.2011**	**31.12.2010**
		Changes +/- [1]					
Equity investments			–0.9			61.3	62.2
Shares in affiliated companies			0.0			368.2	368.2
Securities held as fixed assets			–778.3			3,925.7	4,704.0
Intangible assets	61.4	38.9	0.0	61.9	7.7	38.4	7.2
Tangible assets	65.5	1.0	3.2	43.7	2.3	19.6	21.0
Total						**4,413.2**	**5,162.6**

[1] The aggregation option under Section 34 (3) RechKredV was utilised.

17 Other assets

€m	31.12.2011	31.12.2010
This item includes amongst others:		
Tax refund claims	196.4	82.0
Premiums paid and margins for derivative financial instruments	17.6	3.1
Corporation tax, capital gains tax and solidarity surcharge refunds	1.3	–

18 Prepaid expenses and accrued income

€m	31.12.2011	31.12.2010
This item includes:		
Premium/discount from underwriting and lending business	47.4	66.8
Prepaid expenses and accrued income – derivative financial instruments	8.5	14.1

19 Genuine repurchase agreements

As at 31 December 2011, the book value of lent securities or securities sold under repurchase agreements amounts to €2,141.3m (previous year: €1,955.4m). Pass-through securities lending transactions of €5,333.5m (previous year: €3,925.2m) were also carried out.

20 Collateral transfer for own liabilities

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

€m	31.12.2011	31.12.2010
Due to banks	746.8	396.2
Due to customers	154.0	108.2
Trading portfolio (liabilities)	1,904.2	1,472.2

The collateral was provided mainly for borrowings as part of genuine repurchase agreements. In addition, securities with a book value of €4,362.7m (previous year: €4,544.8m) were pledged at German and foreign futures exchanges as collateral for transactions and securities and loan receivables with a book value of €3,924.5m (previous year: €3,532.9m) were lodged with Deutsche Bundesbank. As at the reporting date, there were no open market transactions.

21 Units or investment shares

€m	Book value 31.12.2011	Market value 31.12.2011	Difference market value – book value	Distribution 2011	Daily redemption possible	Omitted depreciation
Equity funds	339.7	341.8	2.1	11.2	Yes	No
Bond funds	1,184.8	1,184.8	0.0	17.0	Yes	No
Mixed funds	2,586.3	2,796.7	210.4	63.0	Yes	No
Funds of funds	15.4	15.4	0.0	0.0	Yes	No
Property funds	77.4	77.6	0.2	0.9	No	No
Other funds	298.3	298.3	0.0	10.2	No	No
Funds of hedge funds	53.2	53.2	0.0	0.0	No	No
Total	**4,555.1**	**4,767.8**	**212.7**			

22 Due to banks

€m	31.12.2011	31.12.2010
This item includes:		
Liabilities to		
affiliated companies	4,286.3	39.8
companies in which an interest is held	–	2,008.4
Sub item b (with agreed maturity or period of notice) breaks down by residual term to maturity as follows:		
less than three months	6,313.4	5,232.0
from three months to one year	4,041.1	1,831.2
from one year to five years	4,563.1	4,694.2
more than five years	1,944.0	827.9
	16,861.6	**12,585.3**

23 Due to customers

€m	31.12.2011	31.12.2010
This item includes:		
Liabilities to		
affiliated companies	291.7	237.3
companies in which an interest is held	106.6	31.0
Sub item b (with agreed maturity or period of notice) breaks down by residual term to maturity as follows:		
less than three months	2,978.1	2,005.6
from three months to one year	2,213.6	933.0
from one year to five years	6,341.5	7,281.1
more than five years	3,767.6	3,789.0
	15,300.8	**14,008.7**

24 Securitised liabilities

€m	31.12.2011	31.12.2010
Proportion of sub item a (issued bonds) maturing in the following year	**3,512.6**	**3,592.9**
Sub item b (other securities liabilities) breaks down by residual term to maturity as follows:		
less than three months	610.5	594.9
from three months to one year	447.7	158.7
	1,058.2	**753.6**

25 Trading portfolio (liabilities)

This item breaks down as follows:

€m	31.12.2011	31.12.2010
Derivative financial instruments	26,812.1	26,456.1
Liabilities	26,605.2	32,167.7
	53,417.3	**58,623.7**

26 Trust liabilities

Trust liabilities comprise €97m in amounts due to banks and €113m in amounts due to customers.

27 Other liabilities

€m	31.12.2011	31.12.2010
This item includes:		
Foreign exchange equalisation items	615.9	525.8
Bonuses for sales offices	55.3	68.3
Trade payables	48.2	35.4
Premiums received and margins for derivative financial instruments	35.3	0.4
Due to custodial customers	5.1	3.3
Interest on participating certificates	5.0	5.0

28 Provisions for pensions and similar commitments

Pension provisions were calculated using the Heubeck mortality tables 2005 G based on the following actuarial parameters:

in %	2011
Pension trend for adjustments according to Section 16 (2) Company Pensions Fund Act (BetrAVG)	2.00
Pension adjustment with overall trend updating	2.50
Salary trend	2.50

The above parameters are not relevant for the valuation of fund-based commitments as these are not dependent on the final salary.

For the forfeitable projected benefits, in addition to the staff turnover profile published by Heubeck Richttafeln GmbH, the calculation uses a parameter level of 1.5.

Provisions for pensions and similar commitments are discounted at the average market interest rate of the past seven years published by Deutsche Bundesbank for an assumed residual time to maturity of 15 years. This interest rate stands at 5.13%.

€m	31.12.2011
Pension provisions	
Acquisition cost of plan assets	231.9
Fair value of plan assets	253.7
Settlement amount of offset liabilities	246.9
Income from plan assets	0.1
Expenses for adding interest	9.0
Excess of plan assets over pension liabilities	**7.1**

29 Accruals and deferred income

€m	31.12.2011	31.12.2010
This item includes:		
Premiums/discounts from underwriting and lending business	28.4	41.5
Accruals and deferred income – derivative financial instruments	10.0	6.2

30 Subordinated liabilities

€m	31.12.2011	31.12.2010
Expenses from subordinated liabilities	41.7	58.1
Accrued interest on subordinated liabilities	22.1	22.1

Borrowings structured as follows:	Currency	Amount €m	Interest rate	Matures on
Bonds				
	EUR	300.0	5.38 %	31.01.2014
	EUR	300.0	4.63 %	21.12.2015
Promissory note loans				
	EUR	85.0	6.15 – 6.46 %	18.05.2012
	EUR	40.0	4.43 %	11.04.2016
	EUR	75.0	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 €747.3m meet the criteria for recognition as liable equity under Section 10 KWG.

31 Equity

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

€m	31.12.2011	31.12.2010
a) Subscribed capital		
Subscribed capital	191.7	286.3
Typical silent capital contributions	500.0	500.0
Atypical silent capital contributions	52.4	52.4
b) Capital reserves	189.4	189.4
c) Retained earnings		
Reserves required by the Bank's statutes	51.3	51.3
Other retained earnings	114.1	114.1
Balance sheet equity	**1,098.9**	**1,193.5**

In the reporting year, DekaBank bought back own shares with a nominal value of €94.6m for €994.1m. The subscribed capital was reduced accordingly by €94.6m and the fund for general banking risks by €899.5m.

In 2002, typical silent capital contributions (tranche II) with a nominal amount of €500m were accepted for an indefinite period of time (perpetuals). DekaBank may only terminate these contributions with the consent of BaFin (Federal Financial Supervisory Authority) and a notice period of 24 months to the end of a financial year – for the first time with effect from 31 December 2012. Termination by the silent partners is excluded. As in the previous year, interest expenses for perpetuals amounted to €35.9m and are reported in net interest income.

32 Contingent and other liabilities

The off-balance sheet contingent liabilities amounting to €2,030.4m mainly comprise guarantees and sureties as well as liabilities under CDS transactions as protection seller. There are also irrevocable loan commitments of €1,651.1m. Following the credit rating analyses carried out, it can essentially be assumed that borrowers will meet their commitments and no utilisation is therefore expected. Loan provisions were recognised in individual cases where the default of the borrower is likely.

33 Foreign currency volumes

€m	31.12.2011	31.12.2010
Foreign currency assets	11,683.9	12,337.6
Foreign currency liabilities	5,314.4	4,599.2

Notes to the income statement

34 Net income from the trading portfolio

€20.5m of the net income from the trading portfolio was transferred to the fund for general banking risks.

35 Other operating income

Other operating income consisted mainly of €269.7m from Group offsetting and €35.4m from the reversal of provisions.

36 Other operating expenses

This item includes foreign exchange loss of €9.1m in the non-trading book, transfers to provisions amounting to €22.0m and €5.0m from Group offsetting.

37 Income taxes

In the reporting year, the system for presenting tax expenses and consequently the applicable tax rate was changed.

As DekaBank is treated for tax purposes as an atypical silent partner, corporation tax only applies at DekaBank level to the extent that the taxable income cannot be allocated to the atypical silent partners. Through the acquisition of own shares in the subscribed capital in the first half of 2011, the ratio for allocation of taxable income has changed (the shareholding of the atypical silent shareholders has risen from 36.0% to now 45.6%). This produces a new combined tax rate for the companies in the DekaBank fiscal group of 24.68%. However, in return for the allocation of the tax assessment basis, the atypical silent shareholders have a claim against DekaBank for withdrawal of the corporation tax expense incurred in this respect (45.6% of 15% plus solidarity surcharge, therefore 7.22% in total), so that from an economic viewpoint, DekaBank bears the tax charge incurred at the level of the atypical silent shareholders. To improve comparability, in future the portion of corporation tax expenses attributable to atypical silent shareholders will also be reported as tax expenses.

This results in an increase in the applicable combined tax rate (trade tax plus corporation tax and solidarity surcharge) from 26.21% (reporting year 2010) to 31.90%.

Current income taxes or liabilities are calculated at the current tax rates expected for payments to or refunds from the tax authorities.

38 Management and intermediary services provided for third parties

These relate to services, especially custody account management, provided for third parties.

Information relating to Pfandbrief business

39 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	
€m	2011	2010	2011	2010	2011	2010	2011	2010
Outstanding mortgage Pfandbriefe	45.0	30.0	45.9	30.3	44.7	29.8	47.2	30.9
Cover funds mortgage Pfandbriefe	179.9	189.1	192.4	197.9	182.2	188.2	205.5	210.5
Cover surplus/shortfall	134.9	159.1	146.5	167.6	137.5	158.4	158.3	179.6

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	
€m	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Outstanding mortgage Pfandbriefe	10.0	0.0	10.0	10.0	0.0	0.0	0.0	0.0	20.0	0.0
Cover funds mortgage Pfandbriefe	0.0	21.8	33.2	0.0	23.7	33.5	43.7	8.7	25.2	69.6

Maturity ranges	From 5 years to 10 years		More than 10 years		Total	
€m	2011	2010	2011	2010	2011	2010
Outstanding mortgage Pfandbriefe	5.0	20.0	0.0	0.0	45.0	30
Cover funds mortgage Pfandbriefe	54.1	55.5	0.0	0.0	179.9	189.1

Total amount of additional cover assets

€m	2011	2010
Additional cover assets in accordance with Section 19 (1) No.s 2 and 3 PfandbG	48.7	48.7

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

Composition of cover funds by country

Total amounts	Less than 0.3m [1]		From 0.3m to 5 m [1]		> 5m [1]		Other cover		Total	
€m	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Federal Republic of Germany	0.0	0.0	1.3	1.3	87.4	95.9	48.7	48.7	137.4	145.9
France	0.0	0.0	0.0	0.0	42.5	43.2	0.0	0.0	42.5	43.2
Total	**0.0**	**0.0**	**1.3**	**1.3**	**129.9**	**139.1**	**48.7**	**48.7**	**179.9**	**189.1**

[1] Secured by mortgages

Composition of cover funds by type of use

	Federal Republic of Germany		France		Total	
Total amounts	2011	2010	2011	2010	2011	2010
Commercial use	88.7	97.2	42.5	43.2	131.2	140.4
Other cover	48.7	48.7	0.0	0.0	48.7	48.7
Total	**137.4**	**145.9**	**42.5**	**43.2**	**179.9**	**189.1**

Composition of cover funds by type of building

Total amounts	Federal Republic of Germany 2011	Federal Republic of Germany 2010	France 2011	France 2010	Total 2011	Total 2010
Office buildings	34.4	43.7	42.5	0.0	76.9	43.7
Retail buildings	25.2	38.0	0.0	43.2	25.2	81.2
Other commercial buildings	29.1	15.5	0.0	0.0	29.1	15.5
Other cover	48.7	48.7	0.0	0.0	48.7	48.7
Total	**137.4**	**145.9**	**42.5**	**43.2**	**179.9**	**189.1**

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 the previous year, there were no foreclosure sales or forced administration procedures pending at the year-end.

As in the previous year, no foreclosure sales were carried out in financial year 2011.

As in the previous year, 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

€m	Nominal value 2011	Nominal value 2010	Present value 2011	Present value 2010	Risk-adjusted present value + 250 BP 2011	Risk-adjusted present value + 250 BP 2010	Risk-adjusted present value – 250 BP 2011	Risk-adjusted present value – 250 BP 2010
Outstanding public sector Pfandbriefe	15,941.7	19,512.7	17,047.6	20,599.9	16,217.3	19,560.1	18,130.0	21,905.3
Cover funds public sector Pfandbriefe	18,226.3	21,196.6	19,565.0	22,534.8	18,527.6	21,274.3	20,496.7	23,720.4
Cover surplus/shortfall	2,284.6	1,683.9	2,517.4	1,934.9	2,310.3	1,714.2	2,366.7	1,815.1

Maturity structure

Maturity ranges €m	Less than 1 year 2011	Less than 1 year 2010	From 1 year to 2 years 2011	From 1 year to 2 years 2010	From 2 years to 3 years 2011	From 2 years to 3 years 2010	From 3 years to 4 years 2011	From 3 years to 4 years 2010
Outstanding mortgage Pfandbriefe	3,051.6	3,579.6	5,714.6	3,066.6	2,986.7	5,678.6	1,379.9	2,992.7
Cover funds mortgage Pfandbriefe	2,794.6	2,764.0	2,988.4	2,887.9	3,469.5	3,090.2	4,333.1	3,471.2

Maturity ranges €m	From 4 years to 5 years 2011	From 4 years to 5 years 2010	From 5 years to 10 years 2011	From 5 years to 10 years 2010	More than 10 years 2011	More than 10 years 2010	Total 2011	Total 2010
Outstanding mortgage Pfandbriefe	199.7	1,359.4	1,708.4	1,740.7	900.8	1,095.1	15,941.7	19,512.7
Cover funds mortgage Pfandbriefe	359.5	4,290.6	3,072.9	2,539.8	1,208.3	2,152.9	18,226.3	21,196.6

Total amount of additional cover assets

€m	2011	2010
Additional cover assets in accordance with Section 20 (2) No 2 PfandbG	1.0	1.2

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

Distribution of cover funds

Total nominal value of cover assets by country / type	Country		Regional authorities		Local authorities		Other debtors		Total	
€m	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Federal Republic of Germany	208.5	229.2	2,137.1	2,632.2	520.5	667.2	13,608.1	15,768.6	16,474.2	19,297.2
Denmark	0.0	0.0	0.0	0.0	0.0	0.0	75.0	75.0	75.0	75.0
European Investment Bank (EIB)	0.0	0.0	0.0	0.0	0.0	0.0	29.9	29.0	29.9	29.0
Finland	0.0	0.0	0.0	0.0	21.0	22.1	0.0	0.6	21.0	22.7
Greece	0.0	50.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	50.0
Great Britain and Northern Ireland	0.0	0.0	0.0	0.0	0.0	0.0	469.9	481.6	469.9	481.6
Ireland, Republic	0.0	30.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	30.0
Italy	50.0	0.0	7.7	7.5	0.0	6.1	0.0	0.0	57.7	13.6
Canada	0.0	0.0	66.0	63.9	0.0	0.0	37.9	36.7	103.9	100.6
Lithuania	0.0	0.0	0.0	0.0	46.3	48.8	0.0	0.0	46.3	48.8
Poland	164.1	163.9	0.0	0.0	0.0	0.0	41.8	0.0	205.9	163.9
Portugal	25.0	0.0	0.0	0.0	0.0	0.0	30.0	60.0	55.0	60.0
Slovakia	5.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	5.0	5.0
Spain	0.0	0.0	11.9	10.2	0.0	0.0	64.9	122.1	76.8	132.3
Czech Republic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	27.0	0.0	27.0
United States of America	0.0	0.0	0.0	0.0	0.0	0.0	605.7	659.9	605.7	659.9
Total	**452.6**	**478.1**	**2,222.7**	**2,713.8**	**587.8**	**744.2**	**14,963.2**	**17,260.5**	**18,226.3**	**21,196.6**

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

Other information

40 Related party disclosures

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

41 Average number of staff

Number	2011	2010
Full-time employees	2,115	2,044
Part-time and temporary employees	370	341
	2,485	**2,385**

42 Remuneration of Board members

€	2011	2010
Remuneration of active Board members		
Board of Management	7,664,690.83	7,713,176.50
Administrative Board	644,716.68	684,111.11
Remuneration paid to former Board members and surviving dependants		
Board of Management	1,939,110.34	2,208,782.25
Provisions for pension commitments to these persons	24,856,252.50	25,657,291.00

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

43 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

44 Notes to seats on supervisory bodies (as at January 2012)

Herr Franz S. Waas (Chairman of the Board of Management)		
Chairman of the Supervisory Board	Deutsche Landesbankenzentrale AG	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	Sparkassen Pensionsfonds AG	Cologne
Chairman of the Supervisory Board (from 01.07.2011)	ETFlab Investment GmbH	Munich
Chairman of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Chairman of the Administrative Board	Deka(Swiss) Privatbank AG	Zurich, Schweiz
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 PensionsBeratung GmbH	Cologne
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 Shareholder Committee	Dealis Fund Operations GmbH	Frankfurt/Main
Managing Director	OncamB Vermögensverwaltungsgesellschaft mbH	Bad Soden am Taunus

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
Member of the Administrative Board (from 01.07.2011 to 18.09.2011) Deputy Chairman of the Administrative Board (from 19.09.2011)	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Managing Director (from 14.03.2011)	Deka Treuhand Erwerbsgesellschaft mbH	Frankfurt/Main

Herr Walter Groll (Member of the Board of Management until 30.06.2011)		
Chairman of the Supervisory Board (until 30.06.2011)	ETFlab Investment GmbH	Munich
Deputy Chairman of the Administrative Board (until 30.06.2011)	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg

Herr Hans-Jürgen Gutenberger (Member of the Board of Management)		
Deputy Chairman of the Supervisory Board	Deka Immobilien GmbH	Frankfurt/Main
Member of the Supervisory Board	Gesellschaft für Mittelstandskreditfonds der Sparkassen-Finanzgruppe mbH	Frankfurt/Main
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 PensionsBeratung GmbH	Cologne
Member of the Supervisory Board	Deutsche Landesbankenzentrale AG	Berlin
Member of the Administrative Board	Deka(Swiss) Privatbank AG	Zurich, Schweiz

Herr 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	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, Schweiz
Member of the Shareholders Committee	Dealis Fund Operations GmbH	Frankfurt/Main
Managing Director (from 14.03.2011)	Deka Treuhand Erwerbsgesellschaft mbH	Frankfurt/Main

Board members of DekaBank Deutsche Girozentrale

45 Notes to the Board members of DekaBank Deutsche Girozentrale (as at 31.01.2012)

Board of Management
Franz S. Waas
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 (until 30.06.2011)

Hans-Jürgen Gutenberger
Member of the Board of Management (until 30.06.2012)

Dr. h. c. Friedrich Oelrich
Member of the Board of Management

Administrative Board
Heinrich Haasis
Chairman
President of the German Savings Banks
and Giro Association e.V.

Hans-Jörg Vetter
(until 08.06.2011)
First Deputy Chairman
Chairman of the Management Board of
Landesbank Baden-Württemberg

Helmut Schleweis
First Deputy Chairman (from 08.09.2011)
Member (until 07.09.2011)
Chairman of the Management Board of
Sparkasse Heidelberg

Thomas Mang
Second Deputy Chairman (from 01.01.2012)
Member (until 31.12.2011)
President of the Savings Banks Association of Lower Saxony

Representatives elected by the Shareholders' Meeting
Hans-Dieter Brenner
(until 08.06.2011)
Chairman of the Management Board of
Landesbank Hessen-Thüringen Girozentrale

Klemens Breuer
(until 08.06.2011)
Member of the Management Board of WestLB AG

Michael Breuer
President of the
Rhineland Savings Banks and Giro Association

Thomas Christian Buchbinder
(until 08.06.2011)
Chairman of the Management Board of Landesbank Saar

Dr. Gunter Dunkel
(until 08.06.2011)
Chairman of the Management Board of
NORD/LB Norddeutsche Landesbank Girozentrale

Dr. Johannes Evers
Chairman of the Management Board of
Landesbank Berlin AG

Dr. Rolf Gerlach
Member (from 01.01.2012)
Second Deputy Chairman (until 31.12.2011)
President of the Savings Banks
Association Westphalia-Lippe

Volker Goldmann
(from 15.08.2011)
Chairman of the Management Board of Sparkasse Bochum

Gerhard Grandke
Managing President of the Savings Banks
and Giro Association Hesse-Thuringia

Gerd Häusler
(until 08.06.2011)
Chairman of the Management Board
of Bayerische Landesbank

Reinhard Henseler
Chairman of the Management Board of
Nord-Ostsee-Sparkasse

Michael Horn
(until 08.06.2011)
Deputy Chairman of the Management Board of
Landesbank Baden-Württemberg

Dr. Stephan-Andreas Kaulvers
(until 08.06.2011)
Chairman of the Management Board of
Bremer Landesbank
Kreditanstalt Oldenburg – Girozentrale –

Walter Kleine
(from 15.08.2011)
Chairman of the Management Board
of Sparkasse Hannover

Beate Läsch-Weber
(from 07.04.2011)
President of the Savings Banks
Association Rhineland-Palatinate

Harald Menzel
Chairman of the Management Board of
Sparkasse Mittelsachsen

Prof. Dr. Dirk Jens Nonnenmacher
(until 31.03.2011)
Chairman of the Management Board of HSH Nordbank AG

Constantin von Oesterreich
(from 01.02.2011 to 08.06.2011)
Member of the Management Board of
HSH Nordbank AG

Hans-Werner Sander
Chairman of the Management Board
of Sparkasse Saarbrücken

Eugen Schäufele
(from 15.08.2011)
Chairman of the Management Board
of Kreissparkasse Reutlingen

Siegmund Schiminski
(from 15.08.2011)
Chairman of the Management Board of Sparkasse Bayreuth

Peter Schneider
President of the Savings Banks
Association Baden-Württemberg

Georg Sellner
(from 15.08.2011)
Chairman of the Management Board of
Stadt- und Kreis-Sparkasse Darmstadt

Hans Otto Streuber
(until 31.03.2011)
President of the
Savings Banks Association Rhineland Palatinate

Dr. jur. Harald Vogelsang
Management Board Spokesman of
Hamburger Sparkasse and President of the
Hanseatic Savings Banks and Giro Association

Dietrich Voigtländer
(until 08.06.2011)
Chairman of the Management Board of WestLB AG

Johannes Werner
(from 15.08.2011)
Chairman of the Management Board of
Mittelbrandenburgische Sparkasse in Potsdam

Alexander Wüerst
(from 15.08.2011)
Chairman of the Management Board of
Kreissparkasse Köln

Theo Zellner
President of the Savings Banks Association Bavaria

Employee representatives appointed by the Staff Committee

Michael Dörr
Chairman of the Staff Committee of
DekaBank Deutsche Girozentrale

Heike Schillo
Sales – Savings Banks South
DekaBank Deutsche Girozentrale

Representatives appointed by the Federal Organisation of Central Municipal Organisations

Dr. Stephan Articus
Managing Member of the Presiding Board of the
German Association of Cities

Prof. Dr. Hans-Günter Henneke
Managing Member of the Presiding Board of the
German County Association

Roland Schäfer
President of the German Association of
Towns and Municipalities

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, 27 February 2012

DekaBank
Deutsche Girozentrale

The Board of Management

Waas

Behrens

Dr. Danne

Gutenberger

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 2011. 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, 27 February 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Stefan Palm	ppa. Mirko Braun
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(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, the advisory/management and asset management mandates as well as advisory from the master fund.

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 indictor 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 half-yearly) 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.

ECA cover
Cover for receivables under export credit agreements provided by a state-organised export credit agency (ECA). With regard to export financing, DekaBank focuses on ECA-covered business.

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 and currency 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.

Exchange traded fund (ETF)
Exchange traded investment fund, which is usually managed passively and often reflects a market index (index fund). ETFs are suitable for implementing different investment concepts and they facilitate targeted strategies, such as core-satellite investments, reporting portfolios as liabilities and interest management. They offer added value, particularly for institutional investors.

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 fund. Direct investments in co-operation partner funds, the proportion of products for fund-based asset management attributable to cooperation partners, third party funds and liquidity as well as the advisory/management and asset management mandates are not included.

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

Funding matrix (FM)
The funding matrix divides the incoming and outgoing cash flows from all transactions into maturity bands based on maturity dates for all portfolios and adds these to the net payment flows. This is compared to the liquidity potential and forms the balance.

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.

Multi asset fund
Mixed fund which invests in a broad mix of different asset classes – for example, equities, fixed-interest securities and commodities – and uses a comprehensive range of instruments, such as direct investments, funds and derivatives. The portfolios of fund products can therefore be aligned with the most attractive investment options in the various market phases.

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 co-operation partners and the master fund, 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.

OR claim
From the standpoint of the DekaBank Group, an OR claim is an unintended event which is associated with a negative change in assets (payment-related amounts, internal use of resources and/or opportunity costs) and which primarily results from the materialisation of an operational risk.

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 potential
The primary cover potential is composed of the annual net income contribution, IFRS balance-sheet equity and atypical silent capital contributions. The secondary cover potential consists 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.

Scenario analysis
A scenario analysis focuses on the material risks identified during the self-assessment and uses tree diagrams to provide a detailed description and analysis. In particular, risk indicators need to be taken into account, which facilitate the derivation of ideas for the active management of operational risks.

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.

Self-assessment
Within the scope of the DekaBank Group's scenario-based self-assessment, assessors regularly identify operational risks on a structured basis in the form of loss scenarios and, using interval estimates, assess the probability of those scenarios occurring as well as the amount of the loss.

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

Sensitivity-based Monte Carlo simulation
Method used to determine the value-at-risk. As part of this approach, the portfolio-related risk factors are simulated as random (stochastic) processes. The variations in the risk factors are assumed to be on the basis of normal distribution, although they also reflect historically observed correlations between risk factor changes.

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 price, credit, shareholding, property, property fund risk and operational risk) and the cover potential.

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 Annual Report 2011 can be found on our website, including as an interactive online version, at www.dekabank.de under “Investor Relations/Reports” in German and English. Previous versions of our annual and interim reports are also available for download here.

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Disclaimer

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