

**DekaBank**

**Deutsche Girozentrale**

**Annual financial statements 2017**

# Content

<b>Management report</b>	
At a glance	3
Information about the Deka Group	3
Economic report	17
Forecast and opportunities report	33
Risk report	38
<b>Annual financial statements</b>	
Balance Sheet	79
Income Statement	81
Notes	82
<b>Independent Auditor's Report</b>	<b>113</b>
<b>Glossary</b>	<b>119</b>

# Management report

## At a glance

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

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

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

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

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

## Information about the Deka Group

Deka Group profile and strategy .....	3
Risk and profit management at the Deka Group .....	15

### Deka Group profile and strategy

The structure and content of the following passages on the business model and strategy correspond to the relevant sections published in the Group management report of the Deka Group. The business model and strategy are oriented towards the Deka Group, while Group management is aligned with the business divisions, thereby incorporating all business divisions and legal entities. As DekaBank is not separately managed as an individual institution, these sections have not been separately prepared at the individual institution level.

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

### Legal structure and corporate governance

DekaBank Deutsche Girozentrale is a German federal institution incorporated under public law with registered offices in Frankfurt am Main and Berlin. It is wholly owned by the German savings banks. 50% of the shares are held via Deka Erwerbsgesellschaft mbH & Co. KG. The savings banks hold their interests via this company, which is owned by their regional savings bank and giro associations. The other 50% of the shares are held by the *Deutsche Sparkassen- und Giroverband* (DSGV).

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

### Divisional structure

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

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

### Corporate governance

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

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

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

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

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

### Sustainable governance and non-financial statement

The Deka Group's sustainable governance is based on the strategic orientation of the savings banks. This provides the foundations for the ongoing development of the sustainability strategy, which has been in force since 2009 and was integrated into the business strategy at the end of October 2014. The same applies for the Code of Ethics, which was updated in October 2017 and now sets new areas of focus, emphasising the specific role model function of leaders and the growing significance of a sustainable product

and service portfolio. The code establishes a binding framework to guide the actions of our employees. The Code of Ethics is also the basis for a corporate culture within the Deka Group that complies with the law, is open and transparent and focuses on added value. This is reflected in the code's core values of professionalism, responsibility, trust, collegiality, sustainability, diversity, communication and consistency.

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



See also:  
[www.deka.de/  
deka-group/  
sustainability](http://www.deka.de/deka-group/sustainability)

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

### **Business model**

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

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

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

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

## Deka Group strategy

### *Strategic objectives*

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

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

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

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

### *Strategic measures*

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

#### *Exploiting potential in retail business*

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

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

We have also substantially expanded the assistance we provide for savings banks with their online securities business. The focus is on providing integrated solutions for multichannel sales which link together everything from marketing to online account opening. As of the end of 2017, many savings banks have already incorporated the available online services into their internet banking offerings as a result. As well as the investment finder, a complete online securities trading process is available to the savings banks, so that customers never have to switch to an alternative communication channel. DekaBank's subsidiary bevestor GmbH has developed a first digital asset management solution, which was rolled out in 2017 in the course

of the Family and Friends Phase. The full takeover of S Broker, which took place in 2016, also represented an important step towards the modular implementation of our custody account strategy. S Broker's product range has a broad spectrum of products and services that meet the demands of online brokerage customers.

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

#### *Growth in institutional customer business*

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

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

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

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

#### *Process optimisation*

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

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

#### *Digital transformation*

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

#### *Awards*

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

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

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

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

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

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

*Ongoing development of the sustainability strategy*

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

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

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

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

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

With the German Federal Government's "Climate Protection 2050" plan in mind, the Deka Group plans to evaluate CO<sub>2</sub> emissions along the value chain for its entire business. Modular step-by-step plans are being developed on this basis with the objective of reducing the identified CO<sub>2</sub> emissions over the medium to long term in line with national and global climate targets.



See also:  
[www.deka.de/deka-group/sustainability](http://www.deka.de/deka-group/sustainability)

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

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

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

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

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

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

### **Organisational structure**

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

### **Asset Management Securities business division**

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

The product range comprises

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

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

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

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

**Asset Management Real Estate business division**

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

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

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

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

**Asset Management Services business division**

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

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

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

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

**Capital Markets business division**

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

With its tailored range of services relating to securities repurchase transactions, securities lending and foreign exchange trading, the business division also acts as the central securities and collateral platform for the savings bank association. The division thus enables customers to carry out transactions in all asset classes. It serves as a centre of competence for trading and structuring capital market products as well as

for DekaBank's issuance business. It also offers clearing services to institutional customers, thus helping them to fulfil regulatory requirements efficiently.

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

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

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

#### **Financing business division**

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

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

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

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

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

#### **Sales**

##### *Savings Banks Sales & Marketing*

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

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

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

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

#### *Institutional Customer Sales*

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

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

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

#### *Corporate centres*

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

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

### **Non-core business**

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

### **Major companies and locations**

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

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

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

### **Markets and influencing factors**

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

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

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

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

With issue volume once again rising significantly during the year, at the end of 2017 the Deka Group had reached a market share of 16.0% in the primary market for investment certificates and was thus ranked

second in Germany. At the same time, Deka has established itself as the market leader in reverse convertible bonds and is the third-largest provider of express certificate structures.

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

### **Risk and profit management at the Deka Group**

The structure and content of the section on risk and profit management correspond to the relevant section published in the Group management report of the Deka Group. Risk and profit management are oriented towards the Deka Group, while Group management is aligned with the business divisions, thereby incorporating all business divisions and legal entities. Financial and non-financial performance indicators are defined and monitored solely at Group level, and not at the level of individual institutions. Therefore, no separate section on risk and profit management has been prepared for DekaBank on an individual basis.

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

### **Financial performance indicators**

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

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

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



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

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



See also:  
Overall risk  
position in the  
2017 financial  
year  
pages 54 ff.

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

### **Non-financial performance indicators**

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

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

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

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

## Economic report

Economic environment .....	17
Business development and profit performance in the Deka Group.....	22
Financial position and assets and liabilities of the Deka Group.....	29
Human resources report .....	32

### Economic environment

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

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

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

### Macroeconomic conditions

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

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

ability of the eurozone countries to sell in global markets. This weakened the European economy, as higher product prices inhibited exports.

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

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

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

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

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

## **Sector-related conditions**

### ***Trends in money and capital markets***

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

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

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

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

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

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

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

### ***Trends in property markets***

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

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

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

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

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

### ***Investor attitudes***

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

### **Regulatory environment**

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

#### ***Regulatory topics***

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

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

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

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

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

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

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

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

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

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

#### ***Product and performance-related regulatory proposals***

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

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

### Tax policy developments

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

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

### Business development in the Deka Group

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

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

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

#### Deka Group net sales in €m (Fig. 1)

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

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

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

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

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

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

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

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

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

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

### Comparison of forecast and actual growth

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

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

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

### Ratings

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

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

### Profit performance of the DekaBank

Ordinary income, i.e. the total of net income from interest and equity investments, commission income, trading profit and other operating income, amounted to €1,359m (previous year: €1,411m), thus falling slightly by 3.6%. Net income from interest and equity investments rose by €24m to €619m. Net interest income was €57m (previous year: €285m). The high figure in the previous year was primarily driven by close-out payments from hedging derivatives in the banking book. Net income from equity investments rose in comparison to the previous year from €309m to €562m, primarily due to distributions from securities investments and higher earnings contributions from subsidiaries and affiliated companies.

Net commission income also increased and at €212m was moderately above the prior-year result of €190m.

At €183m, trading profit was some €100m lower than the previous year's result of €283m, which had been strongly affected by positive valuation effects on securities.

Other operating income was €310m (previous year: €307m).

DekaBank's operating expenses – the sum of personnel expenses, other administrative expenses and other operating expenses – rose to €772m in the year under review (previous year: €706m). Other administrative expenses, including depreciation and amortisation, rose by 7.5% to €391m, which was attributable in particular to expenditure incurred in order to meet regulatory requirements. Overall, the result before risk provisioning thus amounted to €588m, down €117m on the previous year. The overall valuation result from the lending, securities and investment business for the past financial year was €-56m (previous year: €-222m). The valuation result reflects in particular a significantly lower level of provisioning in the lending business in comparison with the previous year, when substantial specific provisions were

made in relation to legacy ship loans. After deducting taxes on profits and making an allocation to the fund for general banking risks to strengthen its core capital, DekaBank achieved an operating result after tax of €133m (previous year: €130m).

#### DekaBank performance in €m (Fig. 4)

	2017	2016	Change	
Net interest income and net income from equity investments	619	595	24	4.0%
Net commission income	212	190	22	11.6%
Trading result	183	283	-100	-35.3%
General administrative expenses	738	670	68	10.1%
Risk provision/valuation	-56	-222	166	74.8%
Income tax	178	138	40	29.0%
<b>Net income after tax</b>	<b>133</b>	<b>130</b>	<b>3</b>	<b>2.3%</b>

#### Business development by business division

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

#### Business development in the Asset Management Securities business division

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

#### Net sales performance and total customer assets

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

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

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

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

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

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

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

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

**Business development in the Asset Management Real Estate business division**

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

*Net sales performance and total customer assets*

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

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

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

**Net sales performance in the Asset Management Real Estate business division** in €m (Fig. 7)

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

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

**Total customer assets in the Asset Management Real Estate business division** in €m (Fig. 8)

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

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

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

**Business development in the Asset Management Services business division**

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

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

In the Digital Multichannel Management subdivision, collaboration with the savings banks has been substantially increased. Assets under custody totalled €119.3bn as at the end of 2017, representing a rise of 12.8%. The number of securities transactions was just under 30% higher than in the previous year. This

was partly due to the interim distribution made by the funds in December 2017 on account of the changes contained in the German Investment Tax Reform Act.

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

#### **Business development in the Capital Markets business division**

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

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

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

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

#### **Business development in the Financing business division**

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

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

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

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

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

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

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

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

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

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

#### **Business development in non-core business**

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

### **Financial position and assets and liabilities of the Deka Group**

#### **Financial management principles and objectives**

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

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

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

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

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

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

### Financial position, capital structure, assets and liabilities

DekaBank's business volume rose in 2017 by around €10bn, or 11.5%, to €99.9bn (previous year: €89.6bn). Total balance sheet assets as at the end of 2017 were €93.3bn, representing a rise of around 10% over the previous year's figure of €84.5bn. The change was due chiefly to a customer-driven rise in reverse repo transactions, the majority of which were refinanced on the money markets. Owing to excess liquidity in the money and capital markets, higher liquidity surpluses on the part of customers and the Deka Group's good credit rating, deposit business could be transacted on the money markets at rates that were often substantially below the central bank's deposit facility rate. Parts of these deposit surpluses increased our risk-free cash reserves at the central bank by €6.4bn to €10.0bn.

At €17.1m, receivables due from customers stood at the same level as the previous year, representing around 18.3% of total assets at the reporting date. Receivables due from banks were down by €2.4bn to €9.2bn, around 9.8% of total assets (previous year: 13.7%). Assets held for trading increased by €4.1bn to €34.8bn, primarily due to a greater volume of repo transactions.

They thus made up 37.2% of total assets, the same level as the previous year.

Amounts due to customers stood at €20.5bn (previous year: €18.9bn), a figure equal to 22.0% of total assets (previous year: 22.4%). Amounts due to banks also rose, to €18.7bn (previous year: €15.8bn), and were thus equivalent to 20.0% of total assets (previous year: 18.6%). Securitised liabilities rose by €3.1bn to €14.8bn, corresponding to 15.8% of total assets (previous year: 13.8%). Liabilities held for trading were up €1.6bn on the previous year, amounting to €32.8bn, and thus corresponded to 35.1% of total assets (previous year: 36.9%).

#### Changes in the Deka Group balance sheet in €m (Fig. 9)

	31 Dec 2017	31 Dec 2016	Change	
<b>Total assets</b>	<b>93,330</b>	<b>84,537</b>	8,793	10.4%
<b>Selected asset items</b>				
Due from banks and customers	26,302	28,843	-2,541	-8.8%
Financial assets at fair value	17,536	16,678	858	5.1%
Financial investments	34,756	30,679	4,077	13.3%
<b>Selected liability items</b>				
Due to banks and customers	39,228	34,680	4,548	13.1%
Securitised liabilities	14,786	11,661	3,125	26.8%
Financial investments	32,752	31,162	1,590	5.1%

#### Changes in regulatory capital (own funds)

DekaBank made use of the exemption ("parent waiver") under Article 7 (3) CRR in conjunction with Section 2a (5) of the German Banking Act (KWG) in the reporting year, opting not to meet the requirements laid down in Parts 2 to 5 CRR (Own Funds, Capital Requirements, Large Exposures, Exposures to Transferred Credit Risk) on an individual basis. The change in regulatory capital at individual institution level is therefore not shown separately.

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

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

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

#### Deka Group own funds in €m (Fig. 10)

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

#### Liquidity and refinancing

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

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

## Human resources report

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

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

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

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

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

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

## Forecast and opportunities report

Forecast report .....	33
Opportunities report.....	37

The structure and content of the forecast and opportunities report section correspond to the relevant section published in the Group management report of the Deka Group. Group and business division planning are oriented towards the Deka Group, while Group management is aligned with the business divisions, thereby incorporating all business divisions and legal entities including DekaBank in its capacity as an individual institution. Therefore, no separate forecast and opportunities report has been prepared at individual institution level.

### Forecast report

#### Forward-looking statements

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

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

#### Expected macroeconomic trends

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

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

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

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

In the emerging nations, DekaBank is forecasting economic growth of approximately 5%. Inflation rates will, with a few exceptions, remain low in the coming year, making a tightening of monetary policy unnecessary. In China, substantial changes in the direction of economic policy are not expected in 2018. Never-

theless, the focus on qualitative targets means that growth is likely to lag behind the high rate achieved last year. DekaBank expects the slackening of Chinese economic growth to be a gradual process.

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

#### **Expected trends in the capital markets**

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

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

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

#### **Expected trends in the property markets**

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

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

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

#### **Overall assessment of the economic trends**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### Expected financial and risk position

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

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

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

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

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

#### Performance of key ratios in the Deka Group (Fig. 11)

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

## Opportunities report

### Opportunity management

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

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

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

### Current opportunities

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

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

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

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

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

## Risk report

Risk policy and strategy .....	38
Organisation of risk management and control .....	40
Overall risk position of the Deka Group.....	47
Overall risk position in the 2017 financial year .....	54
Counterparty risk .....	55
Market price risk .....	64
Liquidity risk .....	70
Operational risk.....	73
Business risk.....	77
Other risks.....	78
Structured capital market credit products.....	78

The structure and content of the following risk report correspond to the risk report published in the Group management report of the Deka Group. Risk management and risk control are oriented towards the Deka Group, thereby incorporating all business divisions and legal entities including DekaBank in its capacity as an individual institution. Therefore, no separate risk report has been prepared at individual institution level.

### Risk policy and strategy

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

#### Concept of risk appetite

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

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

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

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

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

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

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

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

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

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

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

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

The concept of risk appetite also covers procedures for monitoring compliance with allocated risk capital. These include management instruments, regular reporting, rulebooks, controls and processes, as well as

risk governance in the sense that roles and responsibilities are laid down for implementing and monitoring risk appetite. Taking risk concentrations into account, the Deka Group has thus established limits for all risks classified as significant during the risk inventory and has implemented rigorous risk management.

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

### **Strategy process**

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

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

### **Organisation of risk management and control**

#### **Board of Management and Administrative Board**

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

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

### Management committees

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

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

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

### Sub-committees of the Risk Management Committee

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

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

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

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

**Business divisions and corporate centres**

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

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

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

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

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

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

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

		Counter-party risk	Market price risk	Liquidity risk	Operational risk	Business risk	Shareholding risk	Property fund risk
<b>Administrative Board</b>								
Risk and Credit Committee	<ul style="list-style-type: none"> <li>- Overview of current risk situation/risk management system</li> <li>- Discussion of strategic direction with Board of Management</li> <li>- Credit approval body</li> </ul>	•	•	•	•	•	•	•
Audit Committee	<ul style="list-style-type: none"> <li>- Reviews results of internal and external audits</li> </ul>	•	•	•	•	•	•	•
<b>Board of Management</b>	<ul style="list-style-type: none"> <li>- Determines strategic direction</li> <li>- Responsible for Group-wide risk management system</li> <li>- Sets return on equity target and allocates risk capital to risk types and business divisions</li> <li>- Sets overall limit and approves limits within risk types</li> </ul>	•	•	•	•	•	•	•
<b>Management Committee for Risk (Management-komitee Risiko – MKR)</b>	<ul style="list-style-type: none"> <li>- Assists the Board of Management in matters relating to significant existing and prospective risks</li> <li>- Supports the Board of Management with the evaluation of issues that have a significant effect on the overall risk profile</li> <li>- Prepares draft resolutions for the Board of Management and makes decisions within the scope of the authority granted to it</li> <li>- Supplemented by various sub-committees</li> </ul>	•	•	•	•	•	•	•
Stress Testing Committee	<ul style="list-style-type: none"> <li>- Assesses and appraises stress scenarios and stress test results</li> <li>- Specifies stress testing processes</li> <li>- Reports and makes recommendations for action to the Board of Management</li> </ul>	•	•	•	•	•	•	•
Models Committee	<ul style="list-style-type: none"> <li>- Assesses current trends and validation issues with regard to valuation and risk models</li> <li>- Central operational body for assessing model risks</li> </ul>	•	•	•	•	•	•	•
Country Risk Committee	<ul style="list-style-type: none"> <li>- Assesses country risks</li> </ul>	•						
Monitoring Committee	<ul style="list-style-type: none"> <li>- Monitors and manages non-performing loans and loans on the watch list</li> </ul>	•						
Ratings Committee	<ul style="list-style-type: none"> <li>- Enhances and maintains internal rating procedures</li> </ul>	•						
Risk Provisioning Committee	<ul style="list-style-type: none"> <li>- Plans, manages and monitors loan loss provisions</li> <li>- Monitors and manages restructuring and liquidation cases</li> </ul>	•						
Risk Talk	<ul style="list-style-type: none"> <li>- Supports the MKR/Board of Management in connection with risk management and monitoring processes in the Capital Markets business division’s operational processes</li> <li>- Emphasis on market price and counterparty risk</li> </ul>	•	•	•	•	•		
<b>Management Committee for Assets and Liabilities (Management-komitee Aktiv-Passiv – MKAP)</b>	<ul style="list-style-type: none"> <li>- Supports the Board of Management in matters relating to interest rate and FX management, liquidity and funding management, capital and balance sheet structure management</li> <li>- Proposes, introduces and monitors risk-mitigating measures in liquidity emergencies</li> <li>- Prepares draft resolutions for the Board of Management</li> </ul>	•	•	•	•	•	•	•

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

### Three Lines of Defence model

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

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

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

### Further developments in risk management

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Overall risk position of the Deka Group**

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

### **Risk definitions, concentrations and measurement**

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

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

### ***Counterparty risk***

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

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

**Market price risk**

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

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

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

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

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

**Liquidity risk**

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

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

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

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

**Operational risk**

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

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

**Business risk**

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

**Reputational risk**

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

**Model risk**

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

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

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

**Further types of risk**

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

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

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

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

**Risk concentrations**

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

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

**Division-specific risk profiles**

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

**Asset Management Securities business division**

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

**Asset Management Real Estate business division**

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

**Asset Management Services business division**

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

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

**Capital Markets business division**

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

**Financing business business division**

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

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

**Treasury**

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

**Non-core business**

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

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

**Risk management instruments covering all risk types**

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

**Risk inventory**

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

**Risk and capital planning**

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

**Risk-bearing capacity and capital allocation**

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

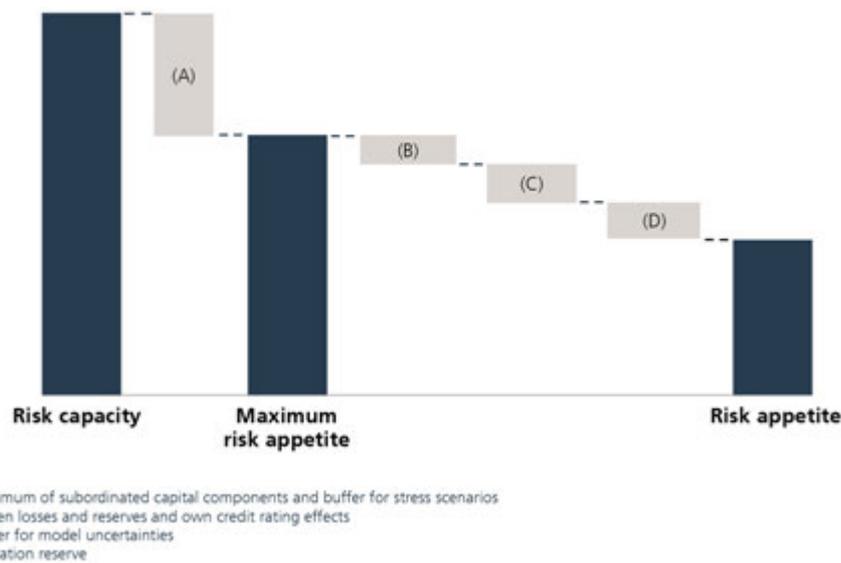
DekaBank uses the value-at-risk approach (VaR) in order to quantify individual risks on a uniform basis and to aggregate them as an indicator for overall risk. The calculation of VaR for a one-year holding period is made for internal management purposes with a confidence level of 99.9%. This level is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

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

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

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

**Risk capacity and risk appetite** (Fig. 13)



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

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

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

### ***Stress tests and scenario analyses***

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

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

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

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

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

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

### **Reporting**

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

Risk concentrations in relation to individual counterparties (cluster risks) are reported on a monthly basis to the Board of Management and to the key risk committees. In addition, a detailed analysis of all individual counterparties classified as clusters and the associated segment concentrations in comparison to the guide-

lines set by the credit risk strategy is conducted on a quarterly basis as part of the quarterly risk report. If necessary, adjustments are made to the number and volume of the relevant counterparties.

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

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

### **Overall risk position in the 2017 financial year**

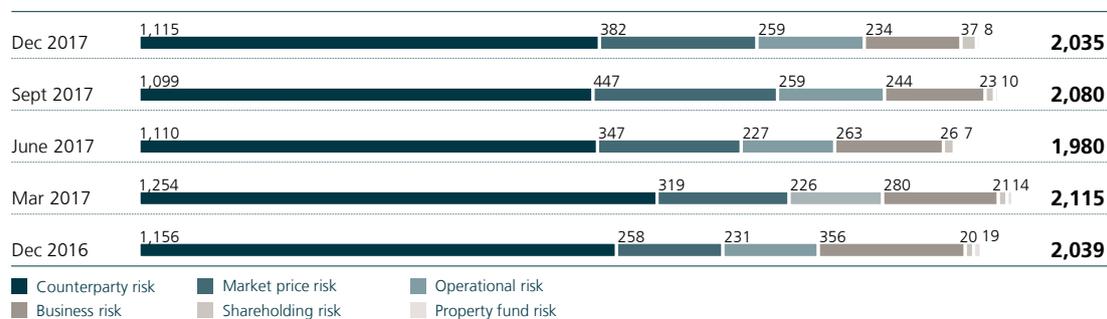
During the reporting year, the model employed by the Deka Group for economic risk management continued to reflect the corporate and market situation in an appropriate and timely manner. In an environment of moderate interest rates and low volatility, market developments play only a subordinate role in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

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

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

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

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

**Change in Deka Group risk over the course of the year €m (Fig. 14)****Counterparty risk****Strategic framework and responsibilities**

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

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

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

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

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

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

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

#### **Focus, structure and degree of risk associated with business activities**

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

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

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

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

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

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

#### **Management and limit-setting**

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

**Portfolio model**

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

**Operating management limits**

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

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

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

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

**Quantification of counterparty risk**

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

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

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

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

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

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

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

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

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

#### ***Management and monitoring of counterparty risks***

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

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

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

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

The Risk Control corporate centre monitors the limits using a centralised limit-monitoring system at both the borrower-unit level and the borrower level. A comprehensive and market-based early warning system ensures that the individual counterparties subject to limits are monitored so that, in the event of extraordinary developments, countermeasures can be taken at an early stage. At a portfolio level, an

analysis of the most significant borrowers and sectors is also carried out, based on CVaR. Maximum country limits are derived from a limit matrix, which is calculated based on a foreign currency (FC) country rating and the gross domestic product. Individual country limits within the limit matrix are approved by the Country Risk Committee. The Risk Control corporate centre monitors compliance with the respective country limits. Overruns are reported immediately to the members of the Country Risk Committee and to the Capital Markets Credit Risk Management unit. This unit acts as the central administrative office for country limits. An analysis of the most significant countries or regions is also carried out from a portfolio perspective, based on CVaR.

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

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

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

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

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

#### ***Performance of stress tests***

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

#### ***Default monitoring***

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

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

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

### Current risk situation

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

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

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

**Gross loan volume** €m (Fig. 15)

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

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

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

**Net loan volume** €m (Fig. 16)

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

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

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

**Gross loan volume by region €m (Fig. 17)**

Eurozone	<b>97,013</b>	88,110
EU excluding eurozone	<b>21,275</b>	19,366
OECD excluding EU	<b>15,062</b>	13,138
International organisations	<b>436</b>	792
Other countries	<b>3,031</b>	2,930

■ Gross loan volume 31 Dec 2017    ■ Gross loan volume 31 Dec 2016

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

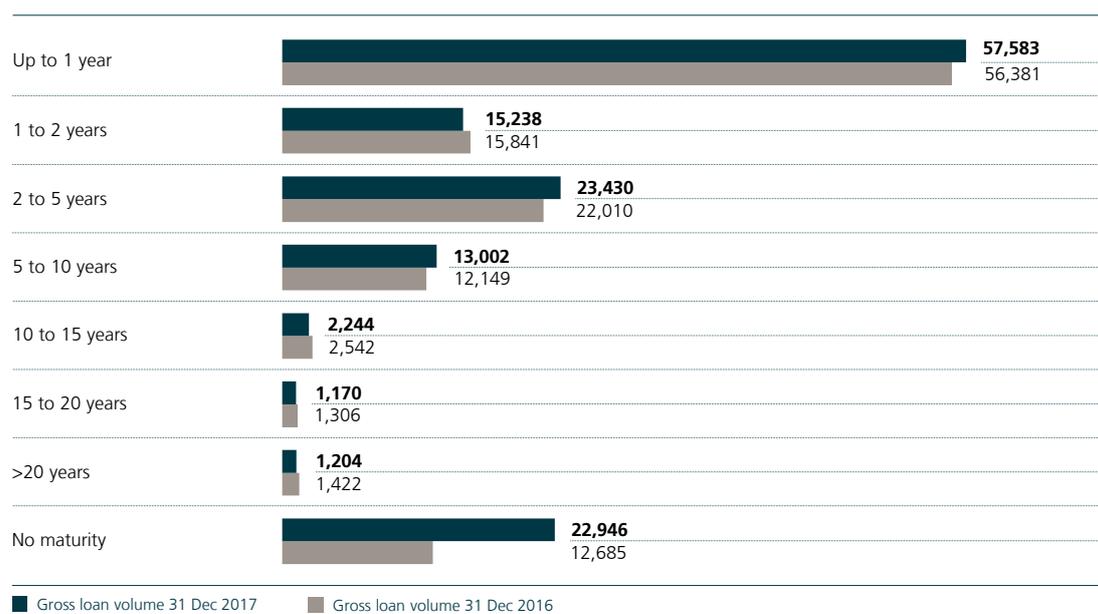
Exposures in the United Kingdom have been closely watched since the Brexit process was triggered. Gross loan volume relating to borrowers in the UK increased to €19.9bn, from €17.6bn at the end of 2016. The rise is due to repo lending transactions with counterparties in the British capital markets. For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

**Gross loan volume by risk segment for selected countries as at 31 December 2017 €m (Fig. 18)**

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

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

#### Gross loan volume by maturity €m (Fig. 19)



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

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

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

**Net loan volume by risk segment and rating** €m (Fig. 20)

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

**Market price risk****Strategic framework and responsibilities**

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

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

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

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

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

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

**Focus, structure and degree of risk associated with business activities**

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

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

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

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

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

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

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

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

### **Management and limit-setting**

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

### **Value-at-Risk (VaR)**

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

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

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

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

### **Sensitivity-based management metrics**

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

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

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

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

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

#### ***Scenario considerations and stress analyses***

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

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

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

#### ***Backtesting of VaR risk ratios and validation***

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

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

#### **Current risk situation**

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

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

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

**Deka Group value-at-risk excluding guarantee risks <sup>1)</sup> (confidence level 99%, holding period ten days)**

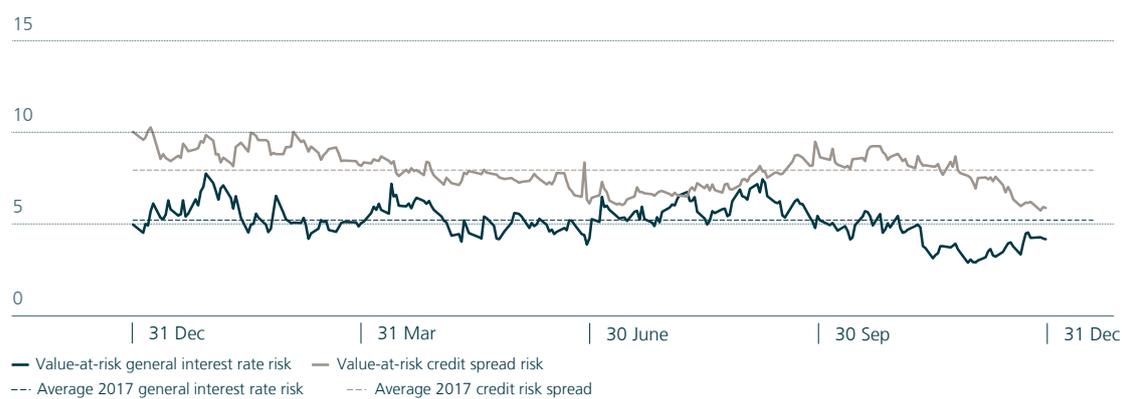
€m (Fig. 21)

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

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

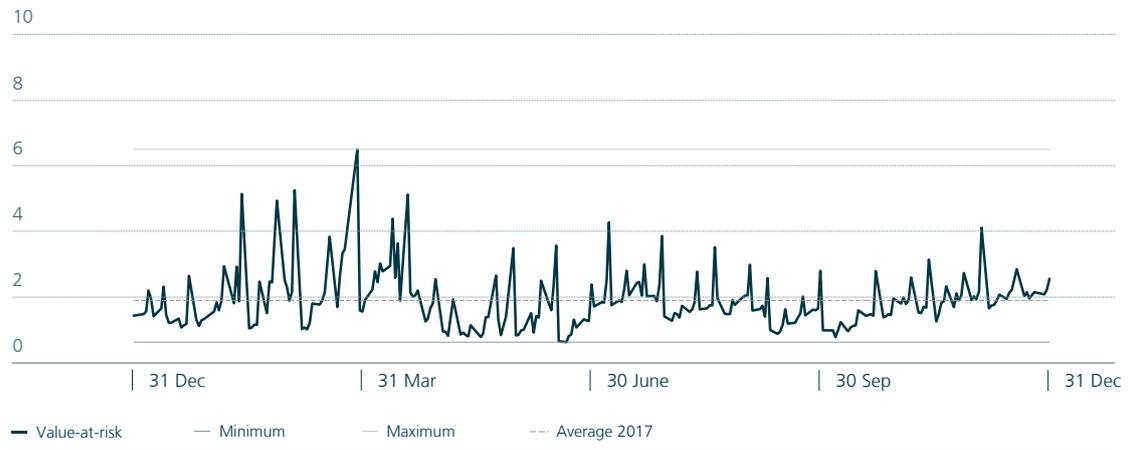
In the period under review, the VaR of spread risk increased to €39.7m (2016: €30.7m). The predominant reason was the increase in exposures in the Strategic Investments unit in the capital markets business. In line with the business model, risk concentration in terms of spread risk thus fell mainly on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

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

**Value-at-risk – General interest rate risk and credit spread risk in the Capital Markets trading book over the course of 2017** €m (Fig. 22)

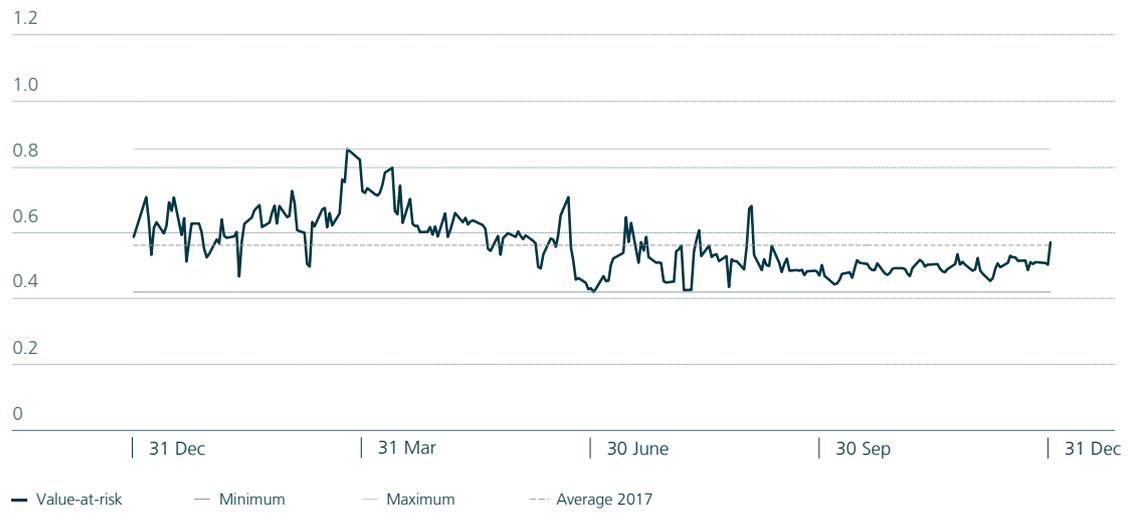
Share price risk rose compared with the year-end figure for 2016 (€3.2m) to €3.5m. It thus remained insignificant. Share price risk in the Capital Markets business division trading book totalled €2.6m (2016: €1.5m).

**Value-at-risk – Share price risk in the Capital Markets trading book over the course of 2017 €m (Fig. 23)**



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

**Value-at-risk – Currency risk in the Capital Markets trading book over the course of 2017 €m (Fig. 24)**



## Liquidity risk

### Strategic framework and responsibilities

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

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

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

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

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

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

### Management and limit-setting

#### *Funding matrices*

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

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

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

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

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

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

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

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

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

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

#### ***Reporting***

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

#### ***Current risk situation***

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

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

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

**"Combined stress scenario" funding matrix of Deka Group as at 31 December 2017 €m (Fig. 25)**

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

1) Including lending substitute transactions and issued CLNs

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

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

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

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

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

## Operational risk

### Strategic framework and responsibilities

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

### Roles and responsibilities

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

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

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

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

### Cross-divisional functions

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

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

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

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

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

**Methods used**

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

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

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

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

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

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

**Current risk situation**

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

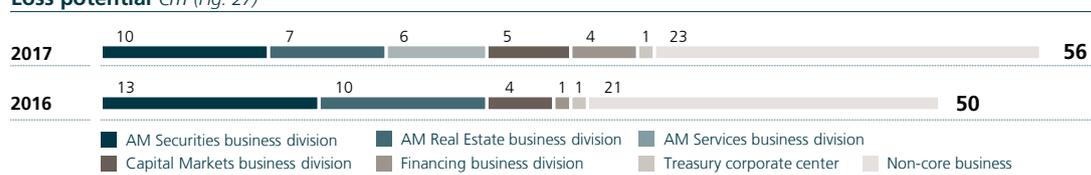
The rise in operational risk was principally due to the revised assessment of a scenario analysis covering the retroactive amendment of taxation terms. Whilst this resulted in a rise in ex-ante risk assessments, the comparatively small number and amount of actual incurred losses led to a slight drop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

**Value-at-Risk** €m (Fig. 26)



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

#### Loss potential €m (Fig. 27)



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

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

#### Compliance

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

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

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

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

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

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

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

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

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

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

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

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

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

The accounting recognition of business transactions is governed centrally by a Group accounting policy. This policy describes key accounting requirements and documents the standard accounting processes that apply throughout the Group. This ensures, amongst other things, that the same business transaction is accounted for uniformly in different Deka Group units and companies in compliance with the applicable accounting standards. Specific work instructions are used to implement Group policy at operational level in

individual specialist departments. These instructions also describe the control mechanisms to be followed. Guidelines and authorisation procedures have been developed for the central systems that generate accounting information as part of the preparation of financial statements. Compliance with these guidelines and concepts is regularly monitored by Internal Audit.

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

### **Business risk**

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

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

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

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

### **Reputational risk**

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

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

## Other risks

### Shareholding risk

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

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

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

### Property fund risk

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

### Structured capital market credit products

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

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

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

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

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

# Annual financial statements

## Balance sheet as at 31 December 2017

Assets	€	€	€	31 Dec 2017 €	31 Dec 2016 €'000
<b>1. Cash reserves</b>					
a) Cash on hand			22,939.01		19
b) Balances with central banks			9,952,420,455.83	9,952,443,394.84	3,588,827
of which:					
with Deutsche Bundesbank	9,952,420,455.83				(3,588,827)
<b>2. Due from banks</b>					
a) due on demand			3,084,329,624.73		2,874,066
b) other claims			6,092,944,461.98	9,177,274,086.71	8,702,678
of which:					
public sector loans	98,898,982.78				(86,304)
<b>3. Due from customers</b>				17,125,194,813.10	<b>17,265,837</b>
of which:					
mortgage loans	1,166,296,975.11				(1,282,149)
public sector loans	1,428,178,894.86				(2,114,450)
other loans secured by mortgages	0.00				(0)
<b>4. Bonds and other fixed-interest securities</b>					
a) Bonds and debt securities					
aa) from public sector issuers		4,736,894,027.60			5,470,471
of which:					
eligible as collateral with Deutsche Bundesbank	4,292,516,359.45				(5,003,709)
ab) from other issuers		12,643,581,754.44	17,380,475,782.04		11,043,277
of which:					
eligible as collateral with Deutsche Bundesbank	10,978,996,847.60				(9,717,076)
b) own bonds			155,408,081.85	17,535,883,863.89	163,947
Nominal amount	154,050,000.00				(163,250)
<b>5. Shares and other non fixed-interest securities</b>				3,317,994,715.06	<b>3,370,855</b>
<b>6. Trading portfolio</b>				34,756,236,294.85	<b>30,679,237</b>
<b>7. Equity investments</b>				22,495,269.23	<b>39,444</b>
of which:					
in banks	117,904.91				(118)
<b>8. Shares in affiliated companies</b>				472,790,481.29	<b>472,791</b>
of which:					
in banks	78,819,541.60				(78,820)
in financial services providers	13,037,291.28				(13,037)
<b>9. Trust assets</b>				151,985,060.86	<b>153,925</b>
<b>10. Intangible assets</b>					
a) Concessions, industrial property rights, and similar rights and values as well as licences there to, acquired for a consideration			21,581,476.00		24,770
b) Advance payments			0.00	21,581,476.00	0
<b>11. Tangible assets</b>				14,388,390.28	<b>13,827</b>
<b>12. Other assets</b>				343,415,049.57	<b>237,823</b>
<b>13. Prepaid expenses and accrued income</b>					
a) from underwriting and lending business			22,819,257.52		16,154
b) other			395,695,923.35	418,515,180.87	418,839
<b>14. Excess of plan assets over pension liabilities</b>				19,580,911.60	<b>0</b>
<b>Total assets</b>				<b>93,329,778,988.15</b>	<b>84,536,787</b>

Liabilities				31 Dec 2017	31 Dec 2016
	€	€	€	€	€'000
<b>1. Due to banks</b>					
a) due on demand			4,631,437,035.50		2,327,989
b) with agreed maturity or period of notice of which:			14,073,642,495.84	18,705,079,531.34	13,432,381
registered mortgage Pfandbriefe	0.00				(50,183)
registered public sector Pfandbriefe	123,175,866.57				(186,716)
<b>2. Due to customers</b>					
Other liabilities					
a) due on demand			12,224,430,464.46		8,923,881
b) with agreed maturity or period of notice of which:			8,298,604,762.13	20,523,035,226.59	9,995,708
registered mortgage Pfandbriefe	5,008,537.20				(5,009)
registered public sector Pfandbriefe	1,978,373,763.87				(2,228,269)
<b>3. Securitised liabilities</b>					
a) bonds issued			8,422,184,304.34		8,910,116
of which:					
mortgage Pfandbriefe	74,540,952.60				(35,154)
public sector Pfandbriefe	251,490,898.16				(279,501)
b) other securitised liabilities			6,363,997,371.70	14,786,181,676.04	2,750,712
of which:					
Money market securities	6,363,997,371.70				(2,750,712)
<b>4. Trading portfolio</b>				32,751,710,963.15	<b>31,162,113</b>
<b>5. Trust liabilities</b>				151,985,060.86	<b>153,925</b>
<b>6. Other liabilities</b>				311,155,765.62	<b>1,078,173</b>
<b>7. Accruals and deferred income</b>					
a) from underwriting and lending business			10,089,418.30		11,157
b) other			245,531,998.93	255,621,417.23	104,194
<b>8. Provisions</b>					
a) provisions for pensions and similar obligations			0.00		8,123
b) provisions for taxes			75,220,776.03		15,386
c) other provisions			429,194,368.86	504,415,144.89	387,167
<b>9. Subordinated liabilities</b>				1,391,563,877.89	<b>1,391,558</b>
<b>10. Fund for general banking risks</b>				3,251,540,178.78	<b>3,010,797</b>
of which:					
special item pursuant to Section 340 e (4) HGB	195,202,000.00				(174,814)
<b>11. Equity</b>					
a) Subscribed capital					
aa) subscribed capital		191,729,340.56			191,729
ab) silent capital contributions		78,760,457.03	270,489,797.59		256,211
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) Net income			72,281,961.40	697,490,145.76	70,748
<b>Total liabilities</b>				<b>93,329,778,988.15</b>	<b>84,536,787</b>
<b>1. Contingent liabilities</b>					
Liabilities from guarantees and warranty agreements				3,294,986,855.51	2,715,764
<b>2. Other liabilities</b>					
Irrevocable lending commitments				1,707,988,310.53	686,008

**Income statement** for the period 1 January to 31 December 2017

Expenses and income				2017	2016
	€	€	€	€	€'000
<b>1. Interest income from</b>					
a) Lending and money market transactions		606,393,705.65			898,736
of which: negative interest income	45,682,846.12				(36,592)
b) Fixed-income securities and debt register claims		179,530,977.64	785,924,683.29		205,223
<b>2. Interest expenses</b>			729,346,172.88	56,578,510.41	<b>818,907</b>
of which: positive interest expenses	76,509,606.53				(45,150)
<b>3. Current income from</b>					
a) Shares and other non fixed-interest securities			189,981,783.17		17,467
b) Equity investments			2,150,076.36		3,350
c) Shares in affiliated companies			74,134,998.39	266,266,857.92	62,194
<b>4. Income from profit pooling, profit transfer and partial profit transfer agreements</b>				299,770,944.68	<b>228,276</b>
<b>5. Commission income</b>			1,071,172,444.36		<b>929,372</b>
<b>6. Commission expenses</b>			858,877,199.12	212,295,245.24	<b>739,393</b>
<b>7. Net income/expenses from trading portfolio</b>				183,489,077.71	<b>283,356</b>
<b>8. Other operating income</b>				344,500,498.75	<b>342,708</b>
<b>9. General administrative expenses</b>					
a) Personnel expenses					
aa) Wages and salaries		275,804,419.30			265,659
ab) Social security contributions and expenses for pensions and other employee benefits of which:		70,595,294.89	346,399,714.19		40,489
for retirement pensions	37,409,186.04				(7,997)
b) Other administrative expenses			380,297,848.91	726,697,563.10	353,651
<b>10. Write-downs and valuation allowances on intangible assets and tangible assets</b>				10,935,809.80	<b>10,384</b>
<b>11. Other operating expenses</b>				34,051,273.96	<b>36,111</b>
<b>12. Write-downs and valuation allowances on receivables and certain securities and allocations to provisions for loan losses</b>				71,617,415.14	<b>224,654</b>
<b>13. Allocations to the fund for general banking risks</b>				220,355,366.19	<b>214,446</b>
<b>14. Write-downs and valuation allowances on equity investments, shares in affiliates and securities held as fixed assets</b>				15,469,624.46	<b>2,371</b>
<b>15. Income from write-ups to equity investments, shares in affiliates and securities held as fixed assets</b>				3,702,048.85	<b>1,798</b>
<b>16. Profit or loss on ordinary activities</b>				311,011,282.13	<b>267,561</b>
<b>17. Income taxes</b>				178,170,450.03	<b>137,539</b>
<b>18. Income transferred under profit pooling, profit transfer or partial profit transfer agreements</b>				60,558,870.70	<b>59,274</b>
<b>19. Net income</b>				72,281,961.40	<b>70,748</b>

# Notes

## General information

DekaBank Deutsche Girozentrale, Frankfurt/Berlin, is entered in Commercial Register A at the District Court of Frankfurt am Main under number HRA 16068.

### 1 Preparation of the annual financial statements

The annual financial statements of DekaBank Deutsche Girozentrale for the year ended 31 December 2017 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 accordance with Section 253 (5) 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 settlement amount. Differences between the amount received and the amount repayable were reported in accruals and deferred income and written back as scheduled.

For receivables and liabilities from genuine securities repurchase agreements and derivative transactions, eligible for offsetting with central counterparties on the basis of standardised framework contracts, financial offsetting is carried out provided that the correspondent preconditions are fulfilled. 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 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 portfolio 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 or executable broker quotations are accordingly available, 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 Bank in the valuation. The Bank also selects suitable modelling techniques, appropriate parameters and assumptions. The assumptions underlying financial valuation models can have a considerable effect on the

fair value determined. Where there are no prices from active markets, the fair value is therefore deemed to be the model value as at the reporting date, which reflects a realistic estimate of how the market would probably value the financial instrument.

Derivative financial instruments that are not traded on stock markets are generally measured using recognised models such as the Black-Scholes model, Black-76 model, the SABR model, the Bachelier model, the G1PP model, the G2PP model or the local volatility model. The models are always calibrated using observable market data.

Furthermore, in some individual cases and under restrictive conditions, exchange-traded options are also measured using the Black Scholes model. This case-by-case arrangement applies to special EUREX options where the published price is not based on sales or actual trading volume, but on a valuation using a theoretical EUREX model.

Interest rate swaps and interest rate/currency swap agreements as well as unlisted interest rate futures are measured on the basis of the discounted cash flow model using the market interest rates applying to the remainder of the term of the financial instruments. The tenor structures of the individual interest rates are taken into account by means of separate forward interest rate curves. Discounting is always carried out using the respective currency-specific interest rate curves, which are also used for the corresponding bootstrapping of the forward interest rate curves. This is used for bootstrapping the forward yield curve. For the foreign currency cash flows in interest rate/currency swaps, discounting is carried out taking into account the cross-currency basis.

Fair values for foreign exchange forward contracts are determined on the basis of the forward rates, which in turn are quoted in the market by FX swap centres, as at the reporting date.

Fair values of single name and index credit default swaps are determined using a standard hazard rate model calibrated to the respective par CDS spreads.

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, undergo loss-free valuation pursuant to IDW RS BFA 3. 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 refinancing, risk and administration costs. There was no excess liability at the reporting date, therefore the recognition of a provision was not required.

Receivables 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 with the exception of foreign exchange future contracts, which are included as part of currency translation.

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

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. Allocations to the fund for general banking risks pursuant to Section 340e (4) HGB (German Commercial Code) are also recognised in this item.

When valuing OTC derivatives, the Bank also takes Credit Value Adjustments (CVAs) or Debit Value Adjustments (DVAs) into consideration in order to account for counterparty credit risk or the Bank's own credit risk, unless these are already included elsewhere in the valuation model. If a netting agreement exists for counterparties, the calculation is performed at the level of the counterparty based on the net position. In other cases, the calculation is performed using the individual positions. DekaBank also takes into account a Funding Value Adjustment (FVA), which captures the implicit market refinancing costs for uncollateralised derivative positions. The maturity structure of funding is thus considered to be an important component of fair value for uncollateralised derivatives.

#### **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 and also with observance of the Institute of Auditors (IDW) Comments on Accounting (Stellungnahme zur Rechnungslegung) IDW RS BFA 4. 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, which hedges interest-bearing balance sheet items, were accrued on a pro rata basis and reported in net interest income because these forward foreign exchange transactions are valued at the split forward rate.

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.

#### **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 moderate lower-of-cost-or-market principle. These securities are continually checked for impairment.

#### **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. General valuation allowances are determined taking borrower ratings, counterparty default history and current economic development into account. The expenses resulting 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 purchase price.

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. Situations where potential impairments are assumed include the following:

- default in payment lasting more than 90 days
- deferral of payment claims or waiver of payment claims
- initiation of enforcement measures
- imminent insolvency or overindebtedness
- petition for or commencement of insolvency proceedings
- failure of remedial measures.

### Provisions

For pension commitments, the extent of the obligation is valued by independent actuaries. In these cases, the present value of the pension entitlements earned is determined at each closing date using 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, plan assets, which are required to be offset against the related obligations, were created for the company retirement pensions of DekaBank in the form of a Contractual Trust Arrangement (CTA). These are held by a legally independent trustee – Deka Trust e.V.. The plan assets for the fund-based defined contribution plans consist primarily of fund assets allocated per individual employee and other assets to cover both 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 ring-fenced plan assets using a CTA. This section of the plan assets is invested in a special fund with an investment strategy based on an integrated asset-liability assessment. The plan assets are measured at fair value and reduce the pension provisions shown in the balance sheet. The expected income from the plan 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 plan 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 plan 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 settlement amount (including future cost and price increases) required according to a reasonable commercial judgement. Medium and long-term provisions with remaining terms of more than one year were discounted using the interest rates published by Deutsche Bundesbank pursuant to Section 253 (2) HGB.

**Deferred taxes**

Deferred tax assets are not reported, since the existing asset surplus, utilising the option under Section 274 HGB, is not recognised. Deferred tax assets result primarily from measurement differences in relation to intangible assets and pension provisions. As at the reporting date, measurement differences between the commercial balance sheet and tax balance sheet leading to the recognition of deferred tax liabilities exist to only a very limited extent. DekaBank's combined tax rate (31.9%) is used to measure deferred taxes.

### 3 Derivative transactions

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

#### Derivative transactions – volume – trading portfolio

€m	Nominal value		Full fair values positive market values		Full fair values negative market values	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
<b>Interest rate risks</b>						
<b>OTC products</b>						
Interest rate swaps	471,725.3	416,172.4	8,694.2	10,835.8	8,366.5	10,317.3
Forward rate agreements	19,425.0	24,291.0	0.2	1.4	0.2	1.3
Interest rate options						
Purchases	14,782.8	9,683.3	146.0	242.7	88.5	63.4
Sales	14,370.0	12,805.1	192.3	148.1	349.0	441.6
Caps, floors	12,047.8	8,549.0	39.4	45.4	38.4	27.7
Other interest rate futures	1,719.6	2,211.3	1.3	23.0	44.2	198.8
<b>Exchange traded products</b>						
Interest rate futures/options on interest rate futures	14,179.4	10,661.1	3.0	2.3	2.8	3.9
<b>Sub-Total</b>	<b>548,249.9</b>	<b>484,373.2</b>	<b>9,076.4</b>	<b>11,298.7</b>	<b>8,889.6</b>	<b>11,054.0</b>
<b>Currency risks</b>						
<b>OTC products</b>						
Foreign exchange future contracts	14,930.1	13,215.1	180.3	212.9	179.2	203.1
Interest rate/currency swaps	2,707.0	3,297.1	121.5	208.8	161.5	272.2
<b>Sub-Total</b>	<b>17,637.1</b>	<b>16,512.2</b>	<b>301.8</b>	<b>421.7</b>	<b>340.7</b>	<b>475.3</b>
<b>Share and other price risks</b>						
<b>OTC products</b>						
Share options						
Purchases	664.8	948.1	136.3	336.6	–	–
Sales	6,053.7	6,388.7	–	–	315.3	725.6
Credit derivatives	9,117.8	10,569.1	119.0	92.5	55.6	70.4
Other forward contracts	3,830.3	2,674.0	11.1	52.6	67.2	15.6
<b>Exchange traded products</b>						
Share options	15,833.0	18,530.8	638.2	1,021.0	899.1	1,469.9
Share futures	2,061.1	2,741.9	11.9	11.7	6.5	56.3
<b>Sub-Total</b>	<b>37,560.7</b>	<b>41,852.6</b>	<b>916.5</b>	<b>1,514.4</b>	<b>1,343.7</b>	<b>2,337.8</b>
<b>Total</b>	<b>603,447.7</b>	<b>542,738.0</b>	<b>10,294.7</b>	<b>13,234.8</b>	<b>10,574.0</b>	<b>13,867.1</b>
Amount carried in balance sheet:			5,006.5	7,199.4	5,332.3	7,411.8

The lower carrying amount of derivatives in the trading portfolio compared with market values is due to the offsetting of market values against the variation margin. Within assets, the variation margin received reduced the fair values by a total of around €5.3bn (previous year: €6.0bn). On the other hand, the paid variation margin reduces market values on the liabilities side by around €5.2bn (previous year: €6.5bn).

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

€m	Interest rate risks		Currency risks		Share and other price risks	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
<b>Residual term to maturity</b>						
less than 3 months	55,547.0	73,668.6	7,985.3	6,209.2	7,603.0	7,333.3
> 3 months to 1 year	56,080.5	54,548.6	7,012.7	6,856.1	7,997.4	13,108.6
> 1 year to 5 years	206,243.8	172,477.3	2,174.6	2,562.4	19,389.5	19,217.7
> than 5 years	230,378.6	183,678.7	464.5	884.5	2,570.8	2,193.0
<b>Total</b>	<b>548,249.9</b>	<b>484,373.2</b>	<b>17,637.1</b>	<b>16,512.2</b>	<b>37,560.7</b>	<b>41,852.6</b>

**Derivative transactions – classification by counterparties – trading portfolio**

€m	Nominal value		Full fair values positive market values		Full fair values negative market values	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Banks in the OECD	241,133.5	193,078.1	4,241.2	5,664.5	4,855.1	6,012.3
Public sector entities in the OECD	10,057.0	8,005.6	949.6	1,171.0	146.0	165.7
Other counterparties	352,257.2	341,654.3	5,103.9	6,399.3	5,572.9	7,689.1
<b>Total</b>	<b>603,447.7</b>	<b>542,738.0</b>	<b>10,294.7</b>	<b>13,234.8</b>	<b>10,574.0</b>	<b>13,867.1</b>

**Derivative transactions – volume – non-trading portfolio**

€m	Nominal value		Full fair values positive market values		Full fair values negative market values	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
<b>Interest rate risks</b>						
<b>OTC products</b>						
Interest rate swaps	24,871.8	18,682.6	954.8	1,116.4	574.8	639.8
Caps, floors	10.0	84.9	–	0.1	–	–
Other interest rate futures	25.0	57.1	0.9	–	–	–
<b>Exchange traded products</b>						
Interest rate futures/options on interest rate futures	4,380.7	66.8	3.2	–	0.1	0.4
<b>Sub-Total</b>	<b>29,287.5</b>	<b>18,891.4</b>	<b>958.9</b>	<b>1,116.5</b>	<b>574.9</b>	<b>640.2</b>
<b>Currency risks</b>						
<b>OTC products</b>						
Foreign exchange future contracts	2,010.7	1,901.7	4.2	15.4	28.5	14.0
Interest rate/currency swaps	7,603.4	6,866.7	412.9	155.8	382.2	1,051.4
<b>Sub-Total</b>	<b>9,614.1</b>	<b>8,768.4</b>	<b>417.1</b>	<b>171.2</b>	<b>410.7</b>	<b>1,065.4</b>
<b>Share and other price risks</b>						
<b>OTC products</b>						
Share options						
Purchases	160.0	–	5.4	–	–	–
Sales	–	–	–	–	–	–
Credit derivatives	233.1	296.9	1.1	1.2	4.2	6.7
<b>Exchange traded products</b>						
Share options	112.5	–	6.2	–	–	–
Share futures	31.0	71.5	0.1	0.5	0.2	0.2
<b>Sub-Total</b>	<b>536.6</b>	<b>368.4</b>	<b>12.8</b>	<b>1.7</b>	<b>4.4</b>	<b>6.9</b>
<b>Total</b>	<b>39,438.2</b>	<b>28,028.2</b>	<b>1,388.8</b>	<b>1,289.4</b>	<b>990.0</b>	<b>1,712.5</b>

Derivatives in the non-trading portfolio are generally valued individually in line with the imparity principle. Provisions for possible losses from pending derivative transactions are generally created by recognition of negative market values, on the other hand a claim surplus is not capitalised. Derivatives allocated to the interest book undergo loss-free valuation pursuant to IDW RS BFA 3 together with other financial instruments of the interest book. Against this background, the above-mentioned market values are not the carrying values of derivatives in the non-trading portfolio. Paid or received option premiums and margins for derivative financial instruments of the non-trading portfolio are recognised under 'Other assets' or 'Other liabilities'.

Furthermore, a provision for possible losses in the amount of €0.5m was recognised as at the reporting date.

Under EU Regulation No. 648/2012 (EMIR), there is a requirement to perform certain OTC derivate transactions through a central counterparty. The daily settlement of gains and losses to be carried out in this process (variation margin) results in a net liability for the non-trading portfolio of €374.0m. This is recognised in amounts 'Due to customers'.

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

€m	Interest rate risks		Currency risks		Share and other price risks	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
<b>Residual term to maturity</b>						
less than 3 months	1,436.6	955.8	2,021.1	1,881.4	31.0	71.5
> 3 months to 1 year	5,001.7	1,666.4	1,112.2	286.1	210.0	–
> 1 year to 5 years	14,365.0	8,459.5	4,857.6	4,904.6	183.1	296.9
> than 5 years	8,484.2	7,809.7	1,623.2	1,696.3	112.5	–
<b>Total</b>	<b>29,287.5</b>	<b>18,891.4</b>	<b>9,614.1</b>	<b>8,768.4</b>	<b>536.6</b>	<b>368.4</b>

#### Derivative transactions – classification by counterparties – non-trading portfolio

€m	Nominal value		Full fair values positive market values		Full fair values negative market values	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Banks in the OECD	16,239.6	11,445.4	491.5	270.2	468.4	1,141.2
Public sector entities in the OECD	10.3	111.8	–	–	1.5	6.4
Other counterparties	23,188.3	16,471.0	897.3	1,019.2	520.1	564.9
<b>Total</b>	<b>39,438.2</b>	<b>28,028.2</b>	<b>1,388.8</b>	<b>1,289.4</b>	<b>990.0</b>	<b>1,712.5</b>

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. DekaBank understands 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 investments in accordance with Section 285 No. 11 HGB

Name, registered office	Equity interest in %	Equity <sup>1)</sup> €'000	Result <sup>2)</sup> €'000
<b>Shares in affiliated companies</b>			
DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg	100.00	607,008.3	78,753.7
Deka Investment GmbH, Frankfurt/Main	100.00	93,183.1	182,946.7 <sup>3)</sup>
Deka Immobilien GmbH, Frankfurt/Main	100.00	38,764.7	28,403.1 <sup>3)</sup>
Deka Immobilien Investment GmbH, Frankfurt/Main	100.00	31,245.1	58,637.4 <sup>3)</sup>
S Broker AG & Co. KG, Wiesbaden	100.00	30,409.3	608.9
Landesbank Berlin Investment GmbH, Berlin	100.00	10,660.0	19,021.7 <sup>3)</sup>
Deka Real Estate Lending k.k. i.L., Tokyo	100.00	6,286.3	683.7
Deka Beteiligungsgesellschaft mbH, Frankfurt/Main	100.00	4,449.0	-19.8
bevestor GmbH, Frankfurt/Main	100.00	3,600.0	-3,527.4 <sup>3)</sup>
Deka Vermögensverwaltungs GmbH, Frankfurt/Main	100.00	365.4	-165.7 <sup>3)</sup>
Deka Investors Spezial InvAG m.v.K. u. TGV (TGV Unternehmensaktien), Frankfurt/Main	100.00	262.2	-6.9
Deka Treuhand GmbH, Frankfurt/Main	100.00	120.6	9.9
Privates Institut für quantitative Kapitalmarktforschung der DekaBank GmbH, Frankfurt/Main	100.00	49.3	-0.2 <sup>3)</sup>
LBG Leasing Beteiligungs-GmbH, Frankfurt/Main	100.00	31.9	-0.1
Deka Treuhand Erwerbgesellschaft mbH, Frankfurt/Main	100.00	25.0	-8.0 <sup>3)</sup>
Deka Vorratsgesellschaft 03 mbH, Frankfurt/Main	100.00	24.8	-0.2 <sup>3)</sup>
Deka Vorratsgesellschaft 04 mbH, Frankfurt/Main	100.00	24.8	-0.2 <sup>3)</sup>
Deka Vorratsgesellschaft 05 mbH, Frankfurt/Main	100.00	24.8	-0.2 <sup>3)</sup>
Deka Verwaltungs GmbH, Frankfurt/Main	100.00	8.6	-13.3
WestInvest Gesellschaft für Investmentfonds mbH, Düsseldorf	99.74	11,338.6	11,612.0 <sup>3)</sup>
WIV GmbH & Co. Beteiligungs KG, Frankfurt/Main	94.90	12,857.0	757.0
WIV Verwaltungs GmbH, Frankfurt/Main	94.90	69.0	2.9
<b>Equity investments</b>			
S-PensionsManagement GmbH, Cologne	50.00	26,442.6	-21,812.4
Dealis Fund Operations GmbH i.L., Frankfurt/Main	50.00	18,587.0	943.5
Deka-Neuburger Institut für wirtschaftsmathematische Beratung GmbH, Frankfurt/Main	50.00	17.4	-1.3
<b>Indirect shares in affiliated companies</b>			
Deka International S.A., Luxembourg	100.00	138,568.9	61,105.5
International Fund Management S.A., Luxembourg	100.00	13,648.3	3,989.0
Deka Immobilien Luxembourg S.A., Luxembourg	100.00	2,093.0	645.4
Deka Real Estate Services USA Inc., New York	100.00	729.2	492.5
Deka Far East Pte. Ltd., Singapore	100.00	201.6	26.3
Deka Immobilien Beteiligungsgesellschaft mbH, Frankfurt/Main	100.00	165.1	6.6
S Broker Management AG, Wiesbaden	100.00	63.5	8.2
Perfeus S.A., Luxembourg	100.00	53.3	5.4
Datogon S.A., Luxembourg	100.00	47.9	4.8
Europäisches Kommunalinstitut S.à.r.l., Luxembourg	100.00	7.6	-0.6
<b>Indirect equity investments</b>			
Sparkassen Pensionskasse AG, Cologne	50.00	87,452.0	100.0
Sparkassen Pensionsfonds AG, Cologne	50.00	4,784.0	-405.0
Sparkassen PensionsBeratung GmbH i.L., Cologne	50.00	60.0	0.0
Heubeck AG, Cologne	30.00	6,387.0	2,227.0

<b>Name, registered office</b>	<b>Equity interest in %</b>	<b>Equity <sup>1)</sup> €'000</b>	<b>Result <sup>2)</sup> €'000</b>
Richttafeln-Unterstützungskasse GmbH, Cologne	30.00	264.0	181.0
Compendata Gesellschaft zur Verwaltung von Vorsorgeeinrichtungen mbh, Cologne	30.00	194.0	121.0
Dr. Heubeck Ges. mbH, Viena	30.00	156.0	10.0
Heubeck Richttafeln GmbH, Cologne	30.00	111.0	37.0
DPG Deutsche Performancemessungs-Gesellschaft für Wertpapierportfolios mbH, Frankfurt/Main	22.20	4,313.2	607.1

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

<sup>2)</sup> Net profit/net loss according to Section 275 (2) No. 20 HGB

<sup>3)</sup> 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., Luxembourg, 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 €5.1m for HELICON Verwaltungsgesellschaft mbH & Co. Immobilien KG, Pullach (previous year: €5.1m).

There is an additional funding obligation for the security reserve of the Landesbanken and Girozentralen of €57.5m (previous year: €97.6m). By 2024, the assets of the security reserve must be increased to the statutory target level of 0.8% of the covered deposits of its member institutions. The security reserve collects annual levies from its members for this purpose.

## Notes to the balance sheet

### 7 Due from banks

€m	31 Dec 2017	31 Dec 2016
<b>This item includes:</b>		
<b>Loans to</b>		
affiliated companies	22.4	71.6
companies in which an interest is held	37.7	90.1
<b>Subordinated loans</b>	<b>0.0</b>	<b>-</b>
<b>Sub item b, (other claims) –</b>		
<b>breaks down according to residual term to maturity as follows:</b>		
less than three months	1,508.0	2,612.6
> three months to one year	915.7	1,423.1
> one year to five years	2,439.3	3,193.7
more than five years	1,230.0	1,473.3
	<b>6,093.0</b>	<b>8,702.7</b>
<b>Used as cover funds</b>	<b>648.9</b>	<b>636.0</b>

### 8 Due from customers

€m	31 Dec 2017	31 Dec 2016
<b>This item includes:</b>		
<b>Loans to</b>		
affiliated companies	302.4	210.7
companies in which an interest is held	56.5	57.2
<b>Subordinated loans</b>	<b>0.0</b>	<b>-</b>
<b>This item breaks down by residual term to maturity as follows:</b>		
with indefinite term to maturity	499.2	1,126.9
less than three months	1,168.9	2,031.3
> three months to one year	1,007.7	989.4
> one year to five years	9,254.2	8,004.7
more than five years	5,195.2	5,113.5
	<b>17,125.2</b>	<b>17,265.8</b>
<b>Used as cover funds</b>	<b>2,845.5</b>	<b>3,128.6</b>

## 9 Bonds and other fixed-interest securities

€m	31 Dec 2017	31 Dec 2016
<b>The marketable securities comprising this item include:</b>		
listed	16,346.1	16,331.4
unlisted	1,189.8	346.3
<b>Subordinated securities</b>	<b>336.7</b>	<b>35.8</b>
<b>Due within one year</b>	<b>3,511.8</b>	<b>3,510.1</b>
<b>Used as cover funds</b>	<b>337.1</b>	<b>272.5</b>
Book value of securities valued according to the diluted lower of cost or market principle	3,364.0	2,542.4
Book value of securities reported at more than fair value	523.1	470.8
Market value of securities reported at more than fair value	522.5	466.6

The Bank intends to hold those securities allocated to the 'Securities held as fixed assets' category on a permanent basis. These securities are valued under the moderate lower-of-cost-or-market principle. 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 Dec 2017	31 Dec 2016
<b>The marketable securities comprising this item include:</b>		
listed	0.0	-
unlisted	465.9	1,108.1
<b>Subordinated securities</b>	<b>-</b>	<b>-</b>

## 11 Trading portfolio (assets)

This item breaks down as follows:

€m	31 Dec 2017	31 Dec 2016
Derivative financial instruments	5,006.5	7,199.4
Receivables	21,529.3	15,720.5
Debt securities and other fixed-interest securities	5,858.9	6,681.8
Shares and other non fixed-interest securities	2,375.1	1,107.0
Other assets	4.6	0.1
Risk mark-down	-18.2	-29.6
	<b>34,756.2</b>	<b>30,679.2</b>

## 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 €75.8m and amounts due from customers of €76.2m.

## 15 Tangible assets

This item comprises property, plant and equipment amounting to €14.4m (previous year: €13.9m).

## 16 Changes in fixed assets

€m	Cost of acquisition/ production	Additions	Disposals	Accumulated de- preciation	Depre- ciation for the year	Carrying value	
						31 Dec 2017	31 Dec 2016
Asset items							
		Changes +/- <sup>1)</sup>					
Equity investments			-16.9			22.5	39.4
Shares in affiliated companies			-			472.8	472.8
Securities held as fixed assets			837.7			3,380.1	2,542.4
Intangible assets	145.3	6.3	0.0	130.0	9.5	21.6	24.8
Tangible assets	59.0	2.0	0.1	46.5	1.4	14.4	13.9
<b>Total</b>						<b>3,911.4</b>	<b>3,093.3</b>

<sup>2)</sup> The aggregation option under Section 34 (3) RechKredV was utilised.

## 17 Other assets

€m	31 Dec 2017	31 Dec 2016
<b>This item includes amongst others:</b>		
Tax refund claims	152.3	144.8
Foreign exchange equalisation items	100.4	-
Premiums paid and margins for derivative financial instruments	8.0	0.5

## 18 Prepaid expenses and accrued income

€m	31 Dec 2017	31 Dec 2016
<b>This item includes:</b>		
Premium/discount from underwriting and lending business	22.8	16.2
Prepaid expenses and accrued income – derivative financial instruments	373.9	397.5

## 19 Genuine repurchase agreements

As at 31 December 2017, the book value of lent securities or securities sold under repurchase agreements amounts to €1,259.6m (previous year: €2,500.5m). Pass-through securities lending transactions of €7,315.7m (previous year: €6,968.9m) were also carried out.

## 20 Collateral transfer for own liabilities

As well as the receivables serving as the cover pool for issued Pfandbriefe, assets were also transferred as collateral for the following own liabilities:

€m	31 Dec 2017	31 Dec 2016
Due to banks	272.8	598.3
Due to customers	546.7	558.5
Trading portfolio (liabilities)	14,369.2	9,926.5

The collateral was provided mainly for borrowings as part of genuine repurchase agreements and for open market transactions with Deutsche Bundesbank. In addition, securities with a book value of €1,096.1m (previous year: €1,049.3m) were pledged as collateral for transactions on German and foreign futures exchanges.

## 21 Investment Shares

€m	Carrying value 31 Dec 2017	Market value 31 Dec 2017	Difference market value – carrying value	Distribution 2017	Daily redemption possible	Omitted depreciation
Equity funds	98.4	102.5	4.1	3.2	Yes	No
Bond funds	285.8	286.4	0.6	3.1	Yes	No
Mixed funds	2,164.4	2,387.4	223.0	171.0	Yes	No
Funds of funds	1.5	1.6	0.1	0.0	Yes	No
Other funds	797.6	811.4	13.8	1.5	No	No
Real estate funds	54.0	54.3	0.3	0.4	No	No
<b>Total</b>	<b>3,401.7</b>	<b>3,643.6</b>	<b>241.9</b>			

## 22 Due to banks

€m	31 Dec 2017	31 Dec 2016
<b>This item includes:</b>		
<b>Liabilities to</b>		
affiliated companies	3,119.5	1,552.7
companies in which an interest is held	–	–
<b>Sub item b (with agreed maturity or period of notice) breaks down by residual term to maturity as follows:</b>		
less than three months	4,942.1	5,483.3
> three months to one year	4,469.8	4,053.9
> one year to five years	3,722.9	2,677.7
more than five years	938.8	1,217.5
	<b>14,073.6</b>	<b>13,432.4</b>

## 23 Due to customers

€m	31 Dec 2017	31 Dec 2016
<b>This item includes:</b>		
<b>Liabilities to</b>		
affiliated companies	386.0	335.4
companies in which an interest is held	154.7	141.6
<b>Sub item b (with agreed maturity or period of notice) breaks down by residual term to maturity as follows:</b>		
less than three months	2,299.0	4,214.2
> three months to one year	2,176.6	1,428.8
> one year to five years	2,148.7	2,373.1
more than five years	1,674.3	1,979.6
	<b>8,298.6</b>	<b>9,995.7</b>

## 24 Securitised liabilities

€m	31 Dec 2017	31 Dec 2016
<b>Proportion of sub item a (issued bonds) maturing in the following year</b>	<b>3,458.9</b>	<b>1,197.8</b>
<b>Sub item b (other securitised liabilities) breaks down by residual term to maturity as follows:</b>		
less than three months	6,163.7	2,368.5
> three months to one year	200.3	382.2
	<b>6,364.0</b>	<b>2,750.7</b>

## 25 Trading portfolio (liabilities)

This item breaks down as follows:

€m	31 Dec 2017	31 Dec 2016
Derivative financial instruments	5,332.3	7,411.8
Liabilities	27,419.4	23,750.3
	<b>32,751.7</b>	<b>31,162.1</b>

## 26 Trust liabilities

Trust liabilities comprise €75.8m in amounts due to banks and €76.2m in amounts due to customers.

## 27 Other liabilities

€m	31 Dec 2017	31 Dec 2016
<b>This item includes:</b>		
Foreign exchange equalisation items	–	818.1
Bonuses for sales offices	107.8	94.1
Trade payables	46.3	37.4
Share of profit attributable to atypical silent partners	79.8	86.3
Due to custodial customers	58.0	11.1

## 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 %	31 Dec 2017
Pension trend for adjustments according to Section 16 (2) Company Pensions Fund Act (BetrAVG)	1.75
Pension adjustment with overall trend updating	2.25
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 10 years published by Deutsche Bundesbank for an assumed residual time to maturity of 15 years. This interest rate stands at 3.68%. The difference arising under Section 253 (6) HGB between the amount of provision recognised when discounting using an average market interest rate of the past 10 financial years, and the provision amount when discounting using an average market rate of the past seven financial years, is €45.7m.

€m	31 Dec 2017	31 Dec 2016
<b>Provisions for pensions</b>	<b>0.0</b>	<b>8.1</b>
Acquisition cost of plan assets	329.0	285.7
Fair value of plan assets	460.5	401.8
Settlement amount of offset liabilities	440.9	409.9
Income from plan assets	16.4	9.7
Expenses for adding interest	16.2	15.6
Excess of plan assets over pension liabilities	19.6	0.0

The valuation of cover assets at fair value produces an amount that exceeds the historical cost of these assets of €131.5m, which is not blocked for distribution in accordance with Section 268 (8) HGB, since the free reserves of the company exceed this figure.

## 29 Accruals and deferred income

€m	31 Dec 2017	31 Dec 2016
<b>This item includes:</b>		
Premium/discount from underwriting and lending business	10.1	11.2
Prepaid expenses and accrued income – derivative financial instruments	241.9	100.0

## 30 Subordinated liabilities

€m	31 Dec 2017	31 Dec 2016
Expenses from subordinated liabilities	65.2	66.6
Accrued interest on subordinated liabilities	43.0	43.0

Borrowings structured as follows:

Year of issue	Nominal value in €m	Interest rate (% p.a.)	Maturity
2009	75.0	6.00	2019
2013	25.0	4.00	2023
2013	12.7	4.13	2024
2013	5.0	4.26	2025
2013	52.1	4.50	2028
2013	18.0	4.75	2033
2014	105.7	4.01	2024
2014	137.5	4.15	2025
2014	6.0	4.34	2027
2014	10.0	4.53	2028
2014	97.0	4.52	2029
2014	6.0	4.57	2030
2014	25.0	4.80	2034
2014	473.6	6.00	--
2015	207.3	3.51	2025
2015	22.7	3.58	2026
2015	10.0	3.74	2027
2015	60.0	4.04	2030

There were no new issues during the 2017 financial year.

## 31 Equity

The breakdown of equity (excluding profits intended for distribution) is as follows:

€m	31 Dec 2017	31 Dec 2016
a) Subscribed capital		
Subscribed capital	191.7	191.7
Typical silent capital contributions	26.4	203.8
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
Reserves from retained earnings	114.1	114.1
<b>Balance sheet equity</b>	<b>625.3</b>	<b>802.7</b>

Interest expenses for perpetuals amounted to €2.9m (previous year: €8.0m) and are shown in the net interest income.

## 32 Contingent and other liabilities

The off-balance sheet contingent liabilities amounting to €3,295.0m (previous year: €2,715.8m) include guarantees and sureties as well as liabilities under CDS transactions as protection seller. The item primarily includes liabilities arising from warranty obligations in the amount of €3,093.6m (previous year: €2,576.2m) and irrevocable loan commitments of €1,708.0m (previous year: €686.0m). Based on 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 Dec 2017	31 Dec 2016
Foreign currency assets	15,540.2	14,129.9
Foreign currency liabilities	7,903.1	7,009.0

## Notes to the income statement

### 34 Net interest income from trading portfolio

€20.4m (previous year: €31.5m) of the net income from the trading portfolio totalling €183.5m (previous year: €283.4m) was transferred to the fund for general banking risks in the reporting year.

### 35 Other operating income

Other operating income consists mainly of €287.7m from Group offsetting and €10.7m from the reversal of provisions (including interest effect), as well as the currency translation result of €24.3m from non-trading portfolio items.

### 36 Other operating expenses

Among others, this item includes €17.5m in transfers to provisions (including interest effect) and €7.3m from Group offsetting.

### 37 Auditor's fees

In accordance with Section 285 Sentence 1 No. 17 HGB, the total fee paid to the statutory auditors is not shown, since the corresponding information is included in the consolidated financial statements of DekaBank Deutsche Girozentrale.

### 38 Income taxes

As DekaBank is treated for tax purposes as an atypical silent partnership, DekaBank only accrues corporation tax to the extent that taxable income is not allocated to atypical silent partners. Taking into account the Bank's existing own shares in subscribed capital (acquired in the first half of 2011), the holdings of atypical silent partners in taxable income is 45.6%. This results in a combined tax rate of 24.68% for the companies

in the DekaBank fiscal group. However, in return for the allocation of the tax base, atypical silent partners are entitled to allocate to DekaBank the corporation tax expense attributable to them (45.6% of 15.0% corporation tax plus solidarity surcharge thereon, in total 7.22%), meaning that DekaBank pays an amount equal to the tax expense to the atypical silent partners and from an economical point of view bears this part of the tax expense, as well. Thus, in order to achieve better comparability, the portion of the corporation tax expense attributable to the atypical silent partners is also reported as tax expense.

The applicable combined tax rate (trade tax plus corporation tax and solidarity surcharge) therefore totals 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.

In a circular dated 17 July 2017, the Federal Ministry of Finance (BMF) presented rules for the tax treatment of share trades around the dividend record date, and noted, *inter alia*, that certain transaction types may fall under the scope of section 42 of the German Tax Code (*Abgabenordnung* – AO). Based on a preliminary analysis, it cannot be ruled out that some share trades carried out by DekaBank around the dividend record date in the years concerned will be re-examined by the tax authorities in the light of the said BMF circular. However, DekaBank sees no convincing reason to believe that share trades it transacted around the dividend record date will fall under these rules and therefore considers it unlikely that a final claim will be made in this regard.

Since a degree of uncertainty remains as to how the tax authorities and fiscal courts will ultimately assess the share trades concerned, it is considered possible that legal action may have to be taken in order to uphold this legal position. Given the requirements under commercial law, it was therefore necessary to recognise a total of some €64m in provisions, in addition to adjusting the measurement of tax receivables.

## 39 Management and intermediary services for third parties

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

## Information relating to Pfandbrief business

### 40 Calculation of cover for mortgage and public sector lending business

#### Mortgage Pfandbriefe

##### Outstanding Pfandbriefe and cover pool assets

€m	Nominal value		Net present value <sup>1)</sup>	
	2017	2016	2017	2016
Outstanding mortgage Pfandbriefe	79.5	90.0	80.1	91.4
Cover pool mortgage Pfandbriefe	417.1	326.7	442.6	348.2
Overcollateralization	337.6	236.7	362.4	256.8
Overcollateralization as a % of outstanding	424.6	263.0	452.2	280.9

<sup>1)</sup> Net present values according to vdp credit quality differentiation model

##### Outstanding Pfandbriefe and cover pool assets – risk adjusted net present values<sup>2)</sup>

€m	Risk-adjusted net present value + 250 BP		Risk-adjusted net present value – 250 BP		Risk-adjusted net present value Currency stress	
	2017	2016	2017	2016	2017	2016
Outstanding mortgage Pfandbriefe	75.1	87.9	85.7	91.1	75.1	87.9
Cover pool mortgage Pfandbriefe	409.3	322.9	481.8	348.7	409.3	322.9
Overcollateralization	334.2	235.0	396.1	257.6	334.2	235.0
Overcollateralization as a % of outstanding	444.8	267.4	462.3	282.8	444.8	267.4

<sup>2)</sup> Net present values according to with the static approach pursuant to the Pfandbrief Net Present Value Directive (PfandBarwertV)

Outstanding and cover pool Pfandbriefe are denominated exclusively in euros.

##### Maturity structure

Maturity ranges	Outstanding mortgage Pfandbriefe		Cover pool mortgage Pfandbriefe	
	2017	2016	2017	2016
up to 6 months	0.0	5.0	0.0	88.2
> 6 months to 12 months	0.0	50.0	29.3	0.0
> 12 months to 18 months	0.0	0.0	0.0	0.0
> 18 months to 2 years	30.0	0.0	0.0	29.3
> 2 years to 3 years	29.5	30.0	122.5	0.0
> 3 years to 4 years	10.0	0.0	74.5	122.3
> 4 years to 5 years	10.0	0.0	36.2	20.2
> 5 years to 10 years	0.0	5.0	154.5	66.7
> 10 years	0.0	0.0	0.0	0.0
<b>Total</b>	<b>79.5</b>	<b>90.0</b>	<b>417.1</b>	<b>326.7</b>

**Breakdown of cover pool assets by size**

€m	Total nominal value	
	2017	2016
Ordinary cover:		
up to €0.3m <sup>1)</sup>	0.0	0.0
> €0.3m to €1.0m <sup>1)</sup>	0.8	0.0
> €1.0m to €10.0m <sup>1)</sup>	26.7	12.2
> €10.0m <sup>1)</sup>	319.6	274.5
<b>Sub-total</b>	<b>347.1</b>	<b>286.7</b>
Other cover pool assets <sup>1)</sup>	70.0	40.0
<b>Total</b>	<b>417.1</b>	<b>326.7</b>

<sup>1)</sup> secured by mortgages**Additional information**

	2017	2016
Share of fixed-interest assets outstanding (in %)	100.0	100.0
Share of fixed-interest assets in cover pool (in %)	72.9	66.2
Volume-weighted average age of receivables (in years)	2.4	2.9
Average weighted mortgage loan-to-value (in %)	56.6	59.1

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

**Total amount of additional cover pool assets**

€m	2017	2016
<b>Cover pool assets according to</b>		
Section 19 (1) no. 2 PfandBG		
based in: Germany	70.0	40.0
Thereof exposure in covered bonds according to Article 129 Regulation (EU) no. 575/2013	0.0	0.0

**Breakdown of cover pool assets by type of use**

Total amounts	Federal Republic of Germany		France		Total	
	2017	2016	2017	2016	2017	2016
Commercial use	231.7	149.7	115.3	137.0	347.1	286.7
Other cover pool assets <sup>1)</sup>	70.0	40.0	0.0	0.0	70.0	40.0
<b>Total</b>	<b>301.7</b>	<b>189.7</b>	<b>115.3</b>	<b>137.0</b>	<b>417.1</b>	<b>326.7</b>

<sup>1)</sup> Including mandatory overcollateralization/safeguarding liquidity**Breakdown of cover pool assets by type of building**

Total amounts	Federal Republic of Germany		France		Total	
	2017	2016	2017	2016	2017	2016
Office buildings	106.1	69.9	115.3	137.0	221.5	206.9
Retail buildings	29.3	29.3	0.0	0.0	29.3	29.3
Other commercial buildings	96.3	50.4	0.0	0.0	96.3	50.4
Other cover pool assets <sup>1)</sup>	70.0	40.0	0.0	0.0	70.0	40.0
<b>Total</b>	<b>301.7</b>	<b>189.7</b>	<b>115.3</b>	<b>137.0</b>	<b>417.1</b>	<b>326.7</b>

<sup>1)</sup> Including mandatory overcollateralization/safeguarding liquidity

As in the previous year, there were no claims in the cover pool assets which were in arrears by or non-performing for 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 pending at the year-end

As in the previous year, no foreclosure sales were carried out in financial year 2017.

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

#### Outstanding Pfandbriefe and cover pool assets

€m	Nominal value		Net present value <sup>1)</sup>	
	2017	2016	2017	2016
Outstanding public sector Pfandbriefe	2,301.3	2,636.3	2,671.0	3,128.8
Cover pool public sector Pfandbriefe	3,414.4	3,710.4	3,733.9	4,119.5
Overcollateralization	1,113.1	1,074.1	1,062.9	990.7
Overcollateralization as a % of outstanding	48.4	40.7	39.8	31.7

<sup>1)</sup> Net present values according to vdp credit quality differentiation model

#### Outstanding Pfandbriefe and cover pool assets – risk adjusted net present values<sup>2)</sup>

€m	Risk-adjusted net present value + 250 BP		Risk-adjusted net present value – 250 BP		Risk-adjusted net present value Currency stress	
	2017	2016	2017	2016	2017	2016
Outstanding public sector Pfandbriefe	2,432.1	2,828.8	2,968.9	3,171.3	2,939.0	3,136.1
Cover pool public sector Pfandbriefe	3,519.7	3,886.9	3,989.2	4,162.0	3,861.1	3,993.4
Overcollateralization	1,087.5	1,058.1	1,020.2	990.7	922.1	857.3
Overcollateralization as a % of outstanding	44.7	37.4	34.4	31.2	31.4	27.3

<sup>2)</sup> Net present values according to the static approach pursuant to the Pfandbrief Net Present Value Directive (PfandBarwertV)

### Maturity structure

Maturity ranges	Outstanding public sector Pfandbriefe		Cover pool public sector Pfandbriefe	
	2017	2016	2017	2016
up to 6 months	192.9	187.2	267.9	325.5
> 6 months to 12 months	336.0	129.5	106.3	68.5
> 12 months to 18 months	342.0	215.8	299.5	295.6
> 18 months to 2 years	163.0	336.0	0.5	170.7
> 2 years to 3 years	129.6	505.0	230.6	307.0
> 3 years to 4 years	149.1	129.2	411.9	173.4
> 4 years to 5 years	290.0	153.1	265.4	490.1
> 5 years to 10 years	389.4	664.7	1,655.5	1,370.2
> 10 years	309.3	315.8	176.8	509.4
<b>Total</b>	<b>2,301.3</b>	<b>2,636.3</b>	<b>3,414.4</b>	<b>3,710.4</b>

**Breakdown of cover pool assets by size**

€m	Total nominal value	
	2017	2016
Ordinary cover:		
up to €10.0m	36.6	39.2
> €10.0m to €100.0m	1,031.9	985.5
> €100.0m	2,305.9	2,645.7
<b>Sub-total</b>	<b>3,374.4</b>	<b>3,670.4</b>
Other cover pool assets	40.0	40.0
<b>Total</b>	<b>3,414.4</b>	<b>3,710.4</b>

**Additional information**

	2017	2016
Share of fixed-interest assets outstanding (in %)	92.8	92.8
Share of fixed-interest assets in cover pool (in %)	60.2	61.5
Net present values for each foreign currency in €m:		
USD	255.3	365.8

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

**Total amount of additional cover pool assets**

€m	2017	2016
<b>Cover pool assets according to</b>		
Section 20 (2) no. 2 PfandBG		
based in: Germany	40.0	40.0
Thereof exposure in covered bonds according to Article 129 Regulation (EU) no. 575/2013	0.0	0.0

**Distribution of cover pool assets****Total nominal value of cover pool assets by country / type**

€m	Sovereign		Regional authorities		Local authorities		Other debtors		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Federal Republic of Germany	298.8	366.8	456.6	775.2	398.4	309.4	973.7	936.5	2,127.5	2,387.9
Canada	0.0	0.0	112.1	127.5	0.0	0.0	0.0	0.0	112.1	127.5
Latvia	0.0	0.0	0.0	0.0	111.7	69.9	0.0	0.0	111.7	69.9
Netherlands	170.2	33.1	0.0	0.0	0.0	0.0	0.0	0.0	170.2	33.1
Norway	87.5	100.0	0.0	0.0	0.0	0.0	0.0	0.0	87.5	100.0
Poland	50.0	80.0	0.0	0.0	0.0	0.0	0.0	0.0	50.0	80.0
United States of America	268.7	328.0	0.0	0.0	0.0	0.0	0.0	0.0	268.7	328.0
United Kingdom of Great Britain and Northern Ireland	446.8	544.0	0.0	0.0	0.0	0.0	0.0	0.0	446.8	544.0
<b>Total</b>	<b>1,322.0</b>	<b>1,451.9</b>	<b>568.6</b>	<b>902.7</b>	<b>510.1</b>	<b>379.3</b>	<b>973.7</b>	<b>936.5</b>	<b>3,374.4</b>	<b>3,670.4</b>

**Of which: guarantees from export credit agencies**

€m	2017	2016
Federal Republic of Germany	298.8	366.8
Canada	0.0	0.0
Latvia	0.0	0.0
Netherlands	170.2	33.1
Norway	87.5	100.0
Poland	0.0	0.0
United States of America	268.7	328.0
United Kingdom of Great Britain and Northern Ireland	446.8	544.0
<b>Total</b>	<b>1,272.0</b>	<b>1,371.9</b>

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

**Other information****41 Average number of staff**

Number	2017			2016		
	Male	Female	Total	Male	Female	Total
Full-time employees	1,583	662	2,245	1,594	661	2,255
Part-time and temporary employees	91	398	489	84	386	470
<b>Total</b>	<b>1,674</b>	<b>1,060</b>	<b>2,734</b>	<b>1,678</b>	<b>1,047</b>	<b>2,725</b>

**42 Remuneration of Board members**

€	2017	2016
<b>Remuneration of active Board members</b>		
Board of Management	5,181,973	5,118,807
Administrative Board	709,417	711,833
<b>Remuneration paid to former Board members and surviving dependents</b>		
Board of Management	4,379,713	4,886,565
Provisions for pension commitments to these persons	53,418,591	53,853,196

The remuneration for active members of the Board of Management indicated above comprises all remuneration granted and benefits in kind in the respective financial year. These also include variable components that are attributable to previous years and are thus dependent on business performance in earlier periods.

In financial year 2017, variable remuneration elements in the amount of €2.4m (previous year: €2.5m) were committed to active and former members of the Board of Management, which are dependent on future performance.

Variable remuneration components that were not paid out in the year of the commitment depend on the sustainable performance of the Deka Group and are deferred until the three years following the commitment year. The sustainable components of remuneration granted are subject to a two-year holding period and are paid out after that period has elapsed.

Distributable earnings, corporate value, the economic result, payments to savings bank alliance partners, net sales performance and the individual contribution of the Board Members are used to determine sustainability.

The total benefits include deferred variable remuneration components from active members of the Board of Management in the amount of €2.0m and due to previous members of the Board of Management in the amount of €1.3m. Active members of the Board of Management are to receive an amount of €0.5 for the financial year 2016, €0.7m for financial year 2015, €0.3m for financial year 2014, €0.4m for financial year 2013 and €0.1m for financial year 2012.

### **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.

### **44 Post balance sheet events**

No major developments of particular significance occurred after the 2017 balance sheet date.

### **45 Recommendation regarding appropriation of net profit**

The proposed appropriation of net profit for the 2017 financial year amounting to €72,281,961,40 is as follows:

- Distribution of a dividend amounting to €72,281,961,40, i.e. 37.71% on existing shares in the Bank's subscribed capital (€191,729,340.56) that are entitled to dividends as at 31 December 2017.

## Seats on supervisory bodies

### 46 Notes to seats on supervisory bodies (as at 31.01.2018)

<b>Michael Rüdiger</b>		
<b>(Chairman of the Board of Management)</b>		
Chairman of the Supervisory Board	Deka Investment GmbH	Frankfurt/Main
Member of the Supervisory Board (from 01.01.2018 until 14.01.2018)	Landesbank Berlin Investment GmbH	Berlin
Chairman of the Supervisory Board (from 15.01.2018)		
Member of the Supervisory Board	Evonik Industries AG	Essen
Member of the Supervisory Board	Deka Immobilien GmbH	Frankfurt/Main
Chairman of the Administrative Board	Liquiditäts-Konsortialbank GmbH i.L.	Frankfurt/Main
<b>Dr. Georg Stocker</b>		
<b>(Deputy Chairman of the Board of Management)</b>		
Chairman of the Supervisory Board	S Broker AG & Co. KG	Wiesbaden
Chairman of the Supervisory Board	S Broker Management AG	Wiesbaden
<b>Manuela Better</b>		
<b>(Member of the Board of Management)</b>		
Member of the Supervisory Board	Deutsche EuroShop AG	Hamburg
Deputy Chairman of the Supervisory Board	S Broker AG & Co. KG	Wiesbaden
Member of the Supervisory Board	S Broker Management AG	Wiesbaden
Deputy Chairman of the Supervisory Board	Landesbank Berlin Investment GmbH	Berlin
Deputy Chairman of the Supervisory Board	Deka Investment GmbH	Frankfurt/Main
Deputy Chairman of the Supervisory Board	Deka Immobilien Investment GmbH	Frankfurt/Main
	WestInvest Gesellschaft für Investmentfonds mbH	Düsseldorf
Deputy Chairman of the Supervisory Board	Deka Immobilien GmbH	Frankfurt/Main
Member of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
<b>Dr. Matthias Danne</b>		
<b>(Member of the Board of Management)</b>		
Chairman of the Supervisory Board	Deka Immobilien Investment GmbH	Frankfurt/Main
	WestInvest Gesellschaft für Investmentfonds mbH	Düsseldorf
Chairman of the Supervisory Board	Deka Immobilien GmbH	Frankfurt/Main
Chairman of the Supervisory Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Deputy Chairman of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Deputy Chairman of the Supervisory Board	S-PensionsManagement GmbH	Cologne
Deputy Chairman of the Supervisory Board	Sparkassen Pensionskasse AG	Cologne
Chairman of the Supervisory Board	Sparkassen Pensionsfonds AG	Cologne
Managing Director	Deka Treuhand Erwerbsgesellschaft mbH	Frankfurt/Main

<b>Martin K. Müller</b> <b>(Member of the Board of Management)</b>		
Chairman of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Member of the Supervisory Board (until 31.12.2017)	S Broker AG & Co. KG	Wiesbaden
Member of the Supervisory Board	Sparkassen Rating und Risikosysteme GmbH	Berlin
Member of the Shareholder Committee	Dealis Fund Operations GmbH i.L.	Frankfurt/Main
Managing Director	Deka Treuhand Erwerbsgesellschaft mbH	Frankfurt/Main

## 47 Notes to the Board members of DekaBank Deutsche Girozentrale (as at 31.01.2018)

### Board of Management

**Michael Rüdiger**

Chairman of the Board of Management

**Dr. Georg Stocker**

Deputy Chairman of the Board of Management

**Manuela Better**

Member of the Board of Management

**Dr. Matthias Danne**

Member of the Board of Management

**Martin K. Müller**

Member of the Board of Management

### Administrative Board

**Georg Fahrenscho**

Chairman (until 23.11.2017)

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

President of the German Savings Banks and Giro Association ö.K.

**Helmut Schleweis**

Chairman (from 01.01.2018)

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

President of the German Savings Banks and Giro Association ö.K.

First Deputy Chairman (until 31.12.2017)

Chairman of the Board of Management of Sparkasse Heidelberg

**Thomas Mang**

Second Deputy Chairman

President of the Savings Banks Association of Lower Saxony

### Additional representatives elected by the Shareholders' Meeting

**Michael Bräuer**

Chairman of the Board of Management of Sparkasse Oberlausitz-Niederschlesien

**Michael Breuer**

President of the Rhineland Savings Banks and Giro Association

**Rainer Burghardt**

(until 30.06.2017)

Chairman of the Board of Management of Kreissparkasse Herzogtum Lauenburg

**Ingo Buchholz**

(from 01.01.2018)

Chairman of the Board of Management of Kasseler Sparkasse

**Prof. Dr. Liane Buchholz**

(from 01.04.2017)

President of the Savings Banks Association Westphalia-Lippe

**Carsten Claus**

(until 30.09.2017)

Chairman of the Board of Management of Kreissparkasse Böblingen

**Dr. Michael Ermrich**

Executive President of East German Savings Banks Association

**Dr. Johannes Evers**

Chairman of the Board of Management of Berliner Sparkasse

and President of the Savings Banks Association Berlin

**Andreas Fohrmann**

(from 15.07.2017)

Chairman of the Board of Management of Sparkasse Südholstein

**Dr. Rolf Gerlach**

(until 31.03.2017)

President of the Savings Banks Association  
Westphalia-Lippe

**Gerhard Grandke**

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

**Dr. Christoph Krämer**

Chairman of the Board of Management of  
Sparkasse Iserlohn

**Beate Läsch-Weber**

President of the Savings Banks Association  
Rhineland-Palatinate

**Ludwig Momann**

Chairman of the Board of Management  
of Sparkasse Emsland

**Dr. Ulrich Netzer**

President of the Savings Banks Association Bavaria

**Frank Saar**

(from 01.04.2017))

Member of the Board of Management of  
Sparkasse Saarbrücken

**Peter Schneider**

President of the Savings Banks Association  
Baden-Württemberg

**Georg Sellner**

(until 30.09.2017)

Chairman of the Board of Management of  
Stadt- und Kreis-Sparkasse Darmstadt

**Walter Strohmaier**

Chairman of the Board of Management of  
Sparkasse Niederbayern-Mitte

**Dr. jur. Harald Vogelsang**

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

**Burkhard Wittmacher**

(as at 01.10.2017)

Chairman of the Board of Management of  
Kreissparkasse Esslingen-Nürtingen

**Alexander Wüerst**

Chairman of the Board of Management of  
Kreissparkasse Cologne

**Employee representatives appointed by the  
Staff Committee****Michael Dörr**

Chairman of the Staff Committee of DekaBank  
Deutsche Girozentrale

**Erika Ringel**

Member of the Staff Committee  
of DekaBank Deutsche Girozentrale

**Representatives appointed by the  
Federal Organisation of Central Municipal  
Organisations****Helmut Dedy**

Managing Director of the German Association  
of Cities

**Prof. Dr. Hans-Günter Henneke**

Managing Member of the Presiding Board of the  
German County Association

**Roland Schäfer**

Mayor of the City of Bergkamen and 1st Vice  
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, 21. February 2018

DekaBank

Deutsche Girozentrale

The Board of Management



Rüdiger



Dr. Stocker



Better



Dr. Danne



Müller

## Independent Auditor's Report

To DekaBank Deutsche Girozentrale AöR, Berlin/Frankfurt am Main

### Report on the Audit of the Annual Financial Statements and of the Management Report

#### *Opinions*

We have audited the annual financial statements of DekaBank Deutsche Girozentrale AöR, Berlin/Frankfurt am Main, which comprise the balance sheet as of December 31, 2017 and the income statement for the financial year from January 1, 2017 to December 31, 2017, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of DekaBank Deutsche Girozentrale AöR for the financial year from January 1, 2017 to December 31, 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as of December 31, 2017 and of its financial performance for the financial year from January 1, 2017 to December 31, 2017 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the non-financial statement and the corporate governance statement mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

#### **Basis for the Opinions**

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

#### **Key Audit Matters in the Audit of the Annual Financial Statements**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1, 2017 to December 31, 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

**Valuation of the trading portfolio**

For the accounting policies applied, please refer to note 2 in the notes to the financial statements.

**THE FINANCIAL STATEMENT RISK**

As of December 31, 2017, DekaBank recognized a trading portfolio of EUR 34.8 billion. At 37.2% of total assets this represents a significant item on the assets side for DekaBank and contains securities and derivatives, for which there is a quoted price on an active market and those for which a valuation method based on observable and/or unobservable market data was used.

The financial statement risk could lie in particular in the fact that no proper market prices, valuation methods and models as well as the valuation parameters incorporated as part of this are used when calculating the fair value.

**OUR AUDIT APPROACH**

Based on our risk assessment and evaluation of the risks of material misstatement, we developed an audit approach, which encompasses both controls testing as well as substantive audit procedures. We therefore performed the following audit procedures, among others:

For our assessment, we inspected documentation and conducted surveys, and also tested the functionality of key controls. In particular we evaluated the key processes and controls of DekaBank regarding

- the procurement and validation of the independent verification of quoted prices and observable market data,
- the validation of the valuation method and models,
- the fair value measurement of securities and derivatives as well as
- the calculation and recording of valuation adjustments to determine the fair value

in respect of their adequacy and effectiveness. In addition, we also audited the effectiveness of the general IT controls in the IT systems that are used.

With the involvement of internal KPMG experts (valuation specialists) we carried out, inter alia, the following substantive audit procedures for selected portfolios of securities and derivatives as of December 31, 2017:

- Carrying out an independent price verification in the event that there is a quoted price on an active market.
- Where there are no quoted prices on an active market, we carried out a re-evaluation using an independent valuation method, parameter and models.

**OUR OBSERVATIONS**

Based on the results of the controls testing and the substantive audit procedures we conclude that the market prices, valuation methods and models used by DekaBank to value the financial assets held for trading are reasonable and the parameters used were properly derived.

**Recognition of tax claims from share trading transactions settled around the dividend date**

For the accounting policies applied by DekaBank Deutsche Girozentrale AöR regarding tax refunds received and tax claims from share trading transactions settled around the dividend date from the years 2013 to 2015, please refer to the notes to the financial statements (disclosure number 2) and the Company's management report in the "Operational risks" section.

#### *THE FINANCIAL STATEMENT RISK*

For assessment periods from 2013 to 2015 that are not yet statute-barred DekaBank obtained dividends from share trading transactions settled around the dividend date and reported the withholding tax due therefrom for tax crediting or a tax refund and reported corresponding tax refund claims as assets or had already received the tax refund. Due to the existing legal uncertainty regarding the final tax assessment on basis of the BMF circular dated July 17, 2017 on the part of the tax authorities and tax jurisdiction, the recognition of tax claims resulting from such transactions could be subject to uncertainty for DekaBank. The assessment made by DekaBank regarding the risk of the tax authorities refusing to recognize these tax claims requires judgement. Therefore, there is a possible financial statement risk arising from the tax authorities not recognizing these tax claims with the result that the provision formed pursuant to accounting policies under German commercial law in the form of valuation adjustments on current tax assets (balance sheet item: Other assets) or in the form of tax provisions for the repayment of tax refunds already received may not be sufficient.

#### *OUR AUDIT APPROACH*

Based on our risk assessment and evaluation of the risks of material misstatement, we developed an audit approach, which encompasses both a process audit as well as substantive audit procedures. We therefore performed the following audit procedures, among others, with the involvement of our employees who are specialists in tax law:

For our assessment we conducted discussions with the Board of Management and employees from the departments concerned and gained an understanding of the procedure carried out by DekaBank to derive to an estimation regarding this matter. We assessed and critically scrutinized the appropriateness of the assumptions requiring judgement used by DekaBank, in particular with regard to the complete identification and grouping of share trading transactions around the dividend date. In addition, based on the assessment made by DekaBank and using external opinions we verified the assessment of the risk that the tax authorities will subsequently refuse to recognize the tax claims from the share trading transactions identified around the dividend date.

Using data analyses prepared by DekaBank of the share trading transactions settled around the dividend date we verified the amount of the tax claims resulting from this, and in particular the allocation of the individual offsetting items from the withholding tax for the periods from 2013 to 2015 by comparing the data analysis prepared by DekaBank with supplementary analyses and evidence.

#### *OUR OBSERVATIONS*

Based on our audit procedures we conclude that the assessment carried out by DekaBank of the tax risks stemming from the tax authorities possibly not recognizing tax claims that have been made is reasonable. The presentation of tax claims and the resulting risks was prepared out in line with the requirements set out by respective accounting standards.

#### *Other Information*

The Board of Management is responsible for the other information. The other information comprises the remaining parts of the annual report, with the exception of the audited annual financial statements and management report and our auditor's report.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

***Responsibilities of the Board of Management and the Administrative Board for the Annual Financial Statements and the Management Report***

The Board of Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the Board of Management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the Board of Management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the Board of Management is responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the Board of Management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Administrative Board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

***Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report***

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to

those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the Board of Management and the reasonableness of estimates made by the Board of Management and related disclosures.
- Conclude on the appropriateness of the Board of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the Board of Management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Board of Management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## **Other Legal and Regulatory Requirements**

### ***Further Information pursuant to Article 10 of the EU Audit Regulation***

We were elected as auditor by the annual general meeting on March 30, 2017. We were engaged by the Administrative Board on June 16, 2017. We have been the auditor of the DekaBank Deutsche Girozentrale AöR, Berlin/Frankfurt am Main, without interruption since the financial year 2013.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to the Company or its subsidiaries the following services that are not disclosed in the annual financial statements or in the management report.

In addition to the consolidated financial statements, we audited the annual financial statements of DekaBank and carried out a review of the interim financial report. In addition, we audited the financial statements of various subsidiaries. Furthermore, we also performed other assurance services, including inter alia custody account audits/audits pursuant to the German Securities Trading Act [WpHG], an assurance engagement pursuant to ISAE 3402 (e.g. investment compliance testing), issuing of letters of comfort as well as other assurance services required by supervisory law and tax advisory services for Asset Management.

#### **German Public Auditor Responsible for the Engagement**

The German Public Auditor responsible for the engagement is Markus Fox.

Frankfurt am Main, February 22, 2018

KPMG AG

Wirtschaftsprüfungsgesellschaft

Pukropski

Wirtschaftsprüfer  
[German Public Auditor]

Fox

Wirtschaftsprüfer  
[German Public Auditor]

# Glossary

## **Additional Tier 1 bond (AT1 bond)**

Non-cumulative, fixed-interest bearer bond issued by DekaBank as Additional Tier 1 capital with subsequent adjustment of its interest rate and an unlimited term. If the Common Equity Tier 1 capital ratio falls below a set minimum, the nominal and redemption values of the bearer bond may be reduced in specific circumstances.

## **Advisory/management mandate**

External funds which are managed by a capital management company (Kapitalverwaltungsgesellschaft – KVG) of the Deka Group. For advisory mandates, the KVG acts only as an adviser, i.e. the external management company must verify compliance with investment restrictions in advance. For management mandates, however, investment decisions are made, verified and implemented by the KVG of the Deka Group.

## **Core business**

Deka Group's core business comprises launching and managing securities and property funds and certificates for private and institutional investors as well as transactions that support and complement Asset Management. These include, among other things, services in connection with fund-based asset management, the investment custody business and activities in the Capital Markets and Financing business divisions.

## **Cost/income ratio (CIR)**

In the Deka Group, this indicator is calculated from the ratio of total expenses (excluding restructuring expenses) to total income (before provisions for loan losses) in the financial year.

## **Economic result**

As a key management and performance indicator, together with economic risk, the economic result forms the basis for risk/return management in the Deka Group and is, in principle, determined in accordance with accounting and measurement policies of IFRS. As well as net income before tax, the economic result also includes changes in the revaluation reserve before tax as well as the interest rate and currency related valuation result from original lending and issuance business. The interest expense in respect of AT1 bonds (Additional Tier 1 capital), which is recognised directly in equity, is also included in the economic result. Furthermore, the economic result takes into account potential future charges that are considered possible in the future but that are not yet permitted to be recognised under IFRS due to the fact that accurate details are not yet available. The economic result is therefore a control variable on an accrual basis whose high level of transparency enables recipients of the external financial reporting to consider the company from the management perspective. Fully loaded Capital ratio calculated by applying the set of regulations stipulated in the Capital Requirements Regulation (CRR) and Capital Requirements Directive IV (CRD IV) in full, i.e. without taking account of the applicable transitional provisions.

## **Fund assets (according to BVI)**

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

## **Net funds inflow (according to BVI)**

Difference between the funds inflow from the sale of units and the outflow from the redemption of units. Unlike net sales, this figure does not include the funds of cooperation partners or advisory/management and asset management mandates. However, the net sales from own investments are taken into account in the net funds inflow.

**Net sales**

Performance indicator of sales success in asset management and certificate sales. This figure essentially consists of total direct sales of mutual and special funds, fund-based asset management, funds of partner organisations, master funds and advisory/management mandates, ETFs and certificates. Sales generated through proprietary investment activities are not taken into account. Redemptions and maturities are not taken into account for certificates, since in the certificates business the impact on earnings primarily occurs at the time of issue.

**Non-core business**

Non-core business comprises positions from credit and capital market business that are not suitable for Asset Management or realising synergies with Asset Management. At the Deka Group, these positions are reported separately from core business and reduced while at the same time safeguarding assets. The portfolio essentially consists of legacy business with securitised and structured products as well as bonds of foreign public-sector institutions from the former public finance portfolio. The volume is now relatively small. Payments to the alliance partners Payments made by the Deka Group to the savings banks and Landesbanken. These include the transfer of the front-end load from the sale of funds as well as the corresponding sales performance compensation, asset management fee and sales commission.

**Phase in**

Capital ratio calculated by applying the set of regulations stipulated in the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV) and taking account of the applicable transitional provisions.

**Primary/institutional customers**

The Deka Group's primary customers are the German savings banks and their customers. The products sought by primary customers are also offered to other institutional customers. These include in particular insurance companies, pension funds and foundations but also German public-sector institutions.

**Return on equity (RoE)**

Return on equity at the Deka Group is calculated as the return on balance sheet equity. It corresponds to the annualised economic result relative to the average balance sheet equity including atypical silent capital contributions, without additional Common Equity Tier 1 capital (AT1) and adjusted for intangible assets. Average balance sheet equity is calculated using the figures for the end of the previous year and the most recent quarterly financial statements (accumulated profit in the course of the year taken into account).

**Revaluation reserve**

The revaluation reserves is a component of IFRS equity on the balance sheet. They include revaluations of net liabilities arising from defined benefit obligations (actuarial gains and losses), the effects of fair value measurement on financial instruments in the available for sale category – through other comprehensive income – and the effective portion of the change in fair value of hedging instruments arising from cash flow hedges, taking into account deferred taxes associated with these items.

**Risk-bearing capacity**

As a basic principle, risk-bearing capacity is used to determine the maximum level of risk that can be incurred (impacting the income statement), taking into account risk concentrations. To assess risk-bearing capacity on a differentiated basis, DekaBank distinguishes between the risk capacity, the maximum risk appetite and the risk appetite. In the economic risk-bearing capacity analysis, risk capacity corresponds to the total risk cover potential. As a formal overall risk limit, it serves to guarantee the Bank's risk-bearing capacity. On this basis, a capital buffer is reserved for stress scenarios. The primary control parameter and hence the basis of the risk capital allocated as risk appetite is referred to as the maximum risk appetite, which results from deducting the buffer for stress scenarios from the risk capacity. The corresponding utilisation ratios for risk capacity, the maximum risk appetite and the allocated risk capital (risk appetite) may not exceed 100%.

**Risk cover potential**

In the economic risk-bearing capacity analysis, risk cover potential essentially consists of equity under IFRS, income components and positions of a hybrid capital nature (subordinated capital), adjusted using amounts to correct for certain capital components such as intangible assets or risks arising from pension obligations. As a formal overall risk limit, it serves to guarantee the Bank's risk-bearing capacity. On this basis, a buffer is reserved for stress scenarios in order to reflect extreme market developments and turbulence in the context of risk-bearing capacity. This corresponds at a minimum to the level of subordinated capital components, including Additional Tier 1 capital.

**Scenario analysis**

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

**Total customer assets**

Total customer assets essentially comprise the income relevant volume of mutual and special fund products (including ETFs) direct investments in cooperation partner funds, the portion of fund-based asset management attributable to cooperation partners, third party funds and liquidity, advisory/management mandates, certificates and third party managed master funds.

**Wertpapierhaus**

The Deka Group is the fully-fledged securities service provider for the savings banks. Its services comprise investments, asset management and support for the savings banks throughout the entire investment and advisory process for securities-related business. In addition, the Deka Group offers comprehensive advice and solutions to the savings banks and other institutional customers for their investment, liquidity, funding and risk management requirements.

**Contact**

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