Vote of confidence

Annual financial statements 2010

DekaBank
Deutsche Girozentrale

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Finanzgruppe

DekaBank

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DekaBank Deutsche Girozentrale

Management report 2010 of DekaBank Deutsche Girozentrale

At a glance

DekaBank can look back on a very successful financial year in 2010. Despite perceptible pressure due to market and competitive conditions, we achieved another very good result for our shareholders, the savings banks and *Landesbanken*. Compared with the previous year (€661.8m), the economic result rose by 39.8% to €925.1m. Sharpened in the previous year, the Bank's business model has proven its strength in a variety of market constellations.

The sharp rise in the economic result was primarily achieved through the strong performance of our funds. Following an increase in assets under management, portfolio commission surpassed the previous year's level. In addition, the result was boosted by the performance of our credit and capital market credit portfolios, which exceeded expectations. Unlike the previous year, the required allocation to the provisions for loan losses was only minor, while reversals prevailed. Furthermore, significant write-ups and profits realised on capital market credit products, which were mainly attributable to non-core business, also made a contribution. The strategy we embarked on in the previous year of reducing the portfolio while safeguarding assets was therefore rewarded. A third reason for the pleasing result was the cost discipline in all of the Bank's business divisions as part of the quality and process campaign. Despite the considerable additional expenses incurred for realigning the IT system, administrative expenses were only slightly up on the figure for 2009. A decline in net interest income and net financial income, largely due to the current market environment with its low interest rates and a high level of market liquidity, was more than compensated by the positive factors.

The overall sales trend was modest. The sustained rise in prices on the equity markets has not yet revived demand for investment funds to a significant extent. Property funds faced specific market pressure as a result of the serious problems experienced by some providers as well as imminent regulatory changes. Nevertheless, the DekaBank's net sales increased again to a clearly positive figure after the balanced development in the previous year. In the Asset Management Capital Markets (AMK) business division, the decisive factors were the sales success in mixed funds as well as special funds and advisory/management mandates. In addition, repurchases in fund-based asset management were reduced as compared with the previous year. In the Asset Management Property (AMI) business division, our limited sales quotas for open-ended mutual property funds were sold again in financial year 2010. The liquidity position of our three retail funds was comfortable at all times and the performance of all three funds clearly outstripped the sector average at the end of the year.

New strategic aspects were introduced as part of the proven business model in respect of both retail business and institutional customers. We benefited from our excellent cooperation with the savings banks and our exclusive sales partners, as well as the expertise in credit and capital market business. Along with the innovative multi asset funds, the Deka-Vermögenskonzept (Deka Wealth Concept) launched in the first quarter of 2011 and the exclusive range of products and advisory services for affluent customers merit particular mention. It has become considerably more important to target the various groups of savings bank customers with a differentiated and tailored approach. We expanded the range of credit funds for the savings banks, as institutional customers. For funds, savings banks and other institutional customers, we also further developed the structuring expertise with regard to derivatives.

DekaBank's shareholders are currently negotiating a change in the shareholder structure. The two groups of shareholders have reached a basic understanding that the savings banks will acquire the 50% stake in DekaBank from the *Landesbanken* in 2011 via their associations. In this connection, DekaBank is examining whether to make its own contribution within the scope of this transaction by buying shares in the volume of €1bn.

Structure, products and services of the DekaBank Group

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

Through the close cooperation of the AMK, AMI and Corporates & Markets (C&M) business divisions, DekaBank is continually developing its product and service offering. The Bank takes into account key capital market trends as well as the different risk profiles and investment strategies of its customers.

DekaBank's capital market activities serve the customer-based demand for the Bank's own funds, and that of the savings banks and other institutional investors. In line with the definition of core business, capital market business in the C&M business division focuses on the asset classes and core functions that support Asset Management. The suitability of these is regularly reviewed on the basis of market developments. Conversely, non-core business includes positions that are less attractive for Asset Management. The plan is to gradually decrease the volume of this portfolio over the coming years.

Legal structure and corporate governance

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

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

The close cooperation of the Board of Management and Administrative Board is based on trust. The Administrative Board of DekaBank has 30 members in accordance with the Bank's statutes. These include representatives from the *Sparkassen-Finanzgruppe* 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 work of the Administrative Board is performed in part by the full Board and in part by various expert committees. To this end, the Administrative Board has formed the General Committee, the Audit Committee and the Credit Committee. The German Federal Minister of Finance has the general governmental supervisory responsibility.

Organisational structure and locations

The business of DekaBank is managed from its head office in Frankfurt/Main. Most of the Group's capital investment and associate companies in Germany are also based there. In addition, WestInvest Gesellschaft für Investmentfonds mbH is headquartered in Düsseldorf, the subsidiary ETFlab Investment GmbH, based in Munich, is responsible for the development, issue, marketing and management of ETFs for institutional investors. Important banks in international financial centres include DekaBank Deutsche Girozentrale Luxembourg S.A. in Luxembourg and Deka(Swiss) Privatbank AG in Zurich. The DekaBank Group also maintains companies and representative offices in Amsterdam, Brussels, London, Madrid, Milan, New York, Paris, Tokyo and Vienna.

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

Business divisions and product and service range

Asset Management Capital Markets business division (AMK)

Asset Management Capital Markets (AMK) provides all-round solutions for savings bank customers and institutional investors in capital market-based asset management. This facilitates the implementation of precisely tailored investment strategies that meet all market expectations and encompass the major asset classes. In total, 4.6 million custody clients in Germany, Luxembourg and Switzerland use the DekaBank's fund-based products. Alongside the funds and structured investment solutions of the DekaBank Group, the product range also comprises products from selected international cooperation partners.

For private investors, AMK offers a wide range of investment funds. Currently, 621 mutual funds allow investments in the major asset classes, including equity, bond, money market and mixed funds as well as capital protected funds and any combination of these, sometimes in conjunction with guaranteed, discount and bonus structures. The spectrum covers basic products along with products that meet specific requirements, such as the innovative multi asset funds (see page 6). As at year-end 2010, the DekaBank Group's mutual securities funds, worth €103.9bn in terms of fund assets according to BVI, ranked second place in the German market.

With our fund-based asset management products, we offer comprehensive investment options for private investors. All-inclusive asset allocation across all asset classes lets investors implement their own strategies, in line with their individual risk/reward profile. Structured investment concepts encompass funds of funds and fund-linked asset management. While retail sales of mutual funds are processed by the savings banks, DekaBank additionally pursues direct sales activities in Institutional Sales. AMK manages 364 special funds as well as 136 advisory/management mandates on behalf of institutional investors. The range of services also includes activities of the Master KAG (136 mandates), which institutional customers use to pool their assets under management with one investment company. In the year under review, Master-KAG Deka FundMaster Investmentgesellschaft mbH was merged with Deka Investment GmbH with retrospective effect from 1 January 2010. The management of mutual and special funds and man-date management have therefore been combined under one roof. The merger has reduced complexity and strengthened the efficiency and performance of management and administration in institutional business.

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

AMK's services encompass all aspects of the investment custody business, including portfolio management, and contract and order processing. Since 2009, fund accounting and some areas of fund administration in Germany have been combined in Dealis Fund Operations GmbH, a joint venture with Allianz Global Investors. Dealis is the largest provider of administration services in the German market. By year-end 2010, all funds had already been migrated to the new, cost-efficient administration platform.

Asset Management Property business division (AMI)

The DekaBank Group's property expertise is pooled in the AMI business division. It offers property investment products with different risk/reward profiles for private and institutional investors. In addition, customised property financing is offered to professional property investors, which can partially be passed on to institutional investors as an investment. Product quality is decisively enhanced by direct access to the different property assets and investors, currently in 24 countries, and is ensured by the parallel activities in the investment fund business and property financing.

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

The product range in the investment fund business includes three open-ended mutual property funds for private customers, thirteen special funds, two individual property funds for institutional customers as well as two real estate equity funds of funds. The individual property funds are not subject to the German Investment Act. They are managed in the legal form of a German joint stock company and are therefore very flexible in terms of their investment policy and investment format. Another open-ended mutual property fund, WestInvest ImmoValue, is available for the proprietary investment of the savings banks. With regard to special funds, they have the option of investing, for example, in property investments with alternative profiles, including single sector funds in the WestInvest TargetSelect fund family and property credit assets as part of Deka Loan Investments (DeLI).

With AMI fund assets (according to BVI) of €21.8bn as at the 2010 year-end, distributed across approximately 440 properties in Germany and abroad, DekaBank is the market leader in Germany for mutual property funds and one of the ten leading property asset managers in Europe.

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

Corporates & Markets business division (C&M)

The C&M business division primarily focuses on extending the value-creation chain for internal and external asset managers. Furthermore, C&M helps expand the range of Asset Management products by producing index funds. C&M supplies the *Sparkassen-Finanzgruppe* with liquidity as required and funds lending via the money and capital markets.

The Markets sub-division is the central service provider for DekaBank's Group and non-Group Asset Management customers. The sub-division is the lead manager for all services in the capital market sector that support Asset Management and meet the requirements of the *Sparkassen-Finanzgruppe*. Product development exclusively targets primary customers. To ensure full utilisation of the platform, the same service is also offered to other institutional clients (banks, insurance companies and pension funds).

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

The Treasury sub-division is responsible for DekaBank's liquidity supply and management (Funding & Liquidity) and thus safeguards our role as the central supplier of liquidity in public sector banking and for the Bank's own funds. In addition, Treasury is in charge of bank management and refinancing throughout the Group, a task which comprises the further development of liquidity and interest rate risk management in line with the regulatory requirements.

Savings Banks Sales and Corporate Centres

All business divisions work closely together with Savings Banks Sales, for which a particular Management Board member is responsible within DekaBank. In addition to centralised marketing and sales management, retail sales are divided into three main regions of Germany (North/East, Mid and South). The Sales unit forms an important interface between DekaBank and its alliance partners and also between production and marketing, with a focus on retail customers. Moreover, the unit is responsible for various central duties, such as product and brand management and sales control. Private Banking Sales support the savings banks with a specific range of products and services for their high net worth customers. In organisational terms, Institutional Sales is allocated to the AMK business division, but it performs tasks for all of the business divisions. Products related to company pensions are also sold via S PensionsBeratung, a subsidiary of S PensionsManagement.

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

Non-core business

Business activities that are not intended to be used directly in Asset Management or are less suited to leveraging synergies in connection with investment fund business, have been pooled in non-core business since 2009. This segment covers parts of the lending business and credit substitute transactions. Specifically, these comprise securitisation transactions such as asset or mortgage-backed securities, collateralised loan obligations and synthetic products, parts of the loan portfolio and corporate finance in particular, leveraged loans, trade finance and non ECA-covered export finance. In addition, non-core business includes the portfolio of the Public Finance unit, which was discontinued in 2009 and previously formed part of the C&M business division.

Value-oriented strategy and management

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

DekaBank's mission 2012 gave rise to the Bank's claim of cost-efficiently providing the best possible product and service quality to its sales partners and customers. To achieve this, we pool the competencies and skills of the Group units and ensure close cooperation of the business divisions as part of the comprehensive corporate strategy, which focuses on the requirements of the savings banks and *Landesbanken*. We manage the Bank as a whole with the aim of achieving sustained and value-oriented growth, in order to strengthen our earning power for our shareholders. In summary, we create sustainable added value for the *Sparkassen-Finanzgruppe* and represent a reliable income source for public sector banking.

With our mission 2012, we are firmly embedding our claim of being the integrated bank of choice in all units of the company. The mission sets the standard for employees in all Group units to continually improve their performance while ensuring customer focus and an integrated, holistic approach.

Integrated value creation in the DekaBank Group

Based on the cooperation of the Asset Management Capital Markets, Asset Management Property and Corporates & Markets business divisions, the DekaBank Group develops its product offering in close alignment with key capital and property market trends, broadens access to asset classes and responds to various risk profiles and investment strategies with customised products. Value creation ranges from acquiring attractive assets and investment opportunities to structuring and enhancing them and jointly launching product solutions, which take into account market trends and investor requirements at an early stage. This enables private and institutional investors to implement individual investment strategies in all market scenarios and gear their portfolios towards their own return expectations and risk affinity.

To this end, DekaBank uses its lending and capital market business expertise as well as comprehensive access to the capital and property markets. Via robust technological platforms, we offer an extensive portfolio of solutions comprising products and services in Asset Management for the savings banks and their customers. In addition, as institutional customers, the savings banks benefit from the liquidity and funding strength of DekaBank, as do the investment funds. DekaBank provides liquidity and comprehensive advisory services for the *Sparkassen-Finanzgruppe* and supports the investment funds with the aim of increasing performance by generating additional income. This means that the close dovetailing of the fund, credit and capital market business generates additional income for the Sparkassen-Finanzgruppe.

One example of DekaBank's close integration with its partners in the *Sparkassen-Finanzgruppe* is the "*Mittelstandskreditfonds*", a small and medium-sized enterprises (SME) credit fund. This nationwide financing platform for savings banks was developed in cooperation with the *Deutscher Sparkassen- und Giroverband*. The SME credit fund will enable savings banks for the first time to invest in a diversified German SME portfolio in the future and at the same time deliver the new SME loans granted to the fund. The SME credit fund, which was launched for regular operation in September 2010, will acquire new loans which have been granted to SMEs by the savings banks and which fulfil specific requirements in terms of rating, loan term and loan volume. Other savings banks can then subscribe shares in the attractive and diversified SME credit portfolio. Credit experts from the *Sparkassen-Finanzgruppe* are involved in the portfolio management of the buy-and-hold platform. The supraregional platform is designed to enable the savings banks organisation as a whole to efficiently bundle its financing strength and open up a new scope of investments for larger SMEs.

Strategic measures at Group level

The Lean Transformation process launched during the reporting year is aimed at aligning our services even more closely with customer requirements in order to offer exactly the service which creates value for them. The goal of the holistic approach is to enhance processes, promote closer cooperation, expand specialist skills, establish new development prospects and create sufficient latitude within the DekaBank teams. As a result, the continuous and sustained optimisation process not only delivers added value for customers in terms of quality and service but also facilitates the further development and flexibility of the corporate culture and the achievement of mission 2012.

Insight gained from internal and external customers supports the teams and individual employees in setting the appropriate priorities, an approach which reduces inflexibility and wastage to a minimum and creates more leeway for acting independently in the interest of the customers.

After the successful trial run of the system in three pilot projects, the decision was taken in August 2010 to apply the lean approach in all units of the Group up to 2013, in order to leverage optimisation potential. The Lean Transformation approach focuses on flexibility, quality and efficiency. In the long term, this will safeguard the flexibility achieved within the scope of the quality and process campaign, which runs until 2011. In addition, the process is closely linked to developing a forward-looking management culture (see page 26) and the IT vision.

The Group-wide quality and process campaign continued in financial year 2010. With this campaign, DekaBank is securing its long-term competitiveness and expanding its scope for growth-oriented investment in the core business. More than 400 individual measures are aimed at improving process quality and reducing administrative efforts and expenses. Key measures were successfully completed by the end of 2010, with further measures continuing in 2011.

In the reporting year, we also launched the implementation of the programme DekaBank IT mission. By 2013, the complete IT architecture will be migrated to a flexible, controllable application environment, which ensures high system stability and faster adaptation to new market trends at appropriate operating costs. In the long term, these measures will result in a significant reduction in IT costs and risks and make an important contribution towards DekaBank's future competitiveness.

The 15 projects launched at the start of the programme primarily focused on structural matters and issues related to the concept. For example, the restructuring of IT/Organisation was already concluded in March 2010. It is customer-oriented and also provides an organisational system for managing the IT architecture, projects and processes. In the context of Group-wide IT architecture management, several projects for bank management, the trading process and other areas were initiated and the relevant IT vision was defined in concrete terms. A key factor was the integration of the specialist departments as well as limiting implementation risks in the implementation phase. The Administrative Board is regularly informed about the progress of the programme.

Strategy in the business divisions

Strategy in the AMK business division

The AMK business division has continued to fine-tune both its business model in the reporting year as well as the product and advisory spectrum on the basis of the differentiated requirements of the end customer groups of the savings banks. Even more precisely tailored product solutions will be available to private customers in the future, both in mutual funds and asset management, with the solutions customised in line with the respective income and asset situation, risk profile and investment targets. The solutions comprise multi asset funds, which invest in various asset classes such as equities, fixed-income securities and commodities, using a wide range of instruments that include direct investments, funds and derivatives. This makes it possible to gear the fund portfolio to the most attractive investment options in different market phases. In addition, AMK selectively intensifies institutional business in Germany and abroad to stabilise the funds inflow in different market cycles.

For **retail customers**, AMK bases its range of mutual securities funds on the savings banks financing concept with the basic product of fund-linked asset management, which is positioned nationwide, and the funds of funds. In this connection, the product range has been further streamlined. The focus of sales is on straightforward products that are easy to understand and provide a high level of security while also offering attractive yield opportunities, such as the various guaranteed fund concepts. At the same time, attractively designed fund savings plan models are aimed at promoting the long-term loyalty of retail customers to their savings bank.

For **affluent customers** – retail customers with significant income or assets, but who are below the traditional private banking segment – AMK developed the Deka-Vermögenskonzept in close cooperation with Savings Banks Sales in financial year 2010. The product was launched in the first quarter of 2011 and makes professional, tailored asset management investments available to a broad section of customers. In addition, it supports savings banks advisers in gearing their customers' investments towards individually changing targets, life stage planning and risk affinity. Business with individual customers of the savings banks with above-average wealth is to be expanded via exclusive new product and services as well as advisory support for the savings banks. Additional impetus is expected to be generated from the acquisition of the private customer business of LBBW Luxemburg S.A. and WestLB International S.A. by DekaBank Deutsche Girozentrale Luxembourg S.A. with effect from 1 January 2011.

With regard to investments for own account by institutional customers, AMK has also further developed its product range and the required infrastructure in cooperation with the other business divisions and Institutional Sales. Other strategic campaigns focus on advising the savings banks on supporting corporate customers, for example with respect to regulatory changes, and on strategically important customers outside the savings bank sector in Germany and abroad, for example by stepping up the mandate business and marketing globally competitive mutual funds.

Strategy in the AMI business division

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

Property fund business

With the exception of WestInvest ImmoValue, the openended mutual property funds are consistently geared to private investors. Rather than being growth-oriented, AMI operates a strict stability-driven investment strategy. Investments focus primarily on core and core+ property with long-term rental income. At the same time, care is taken to ensure balanced regional diversification. Properties which no longer meet the requirements are always sold. AMI continues to channel funds received from institutional investors into other types of investments on a targeted basis, in order to strengthen retail products. Sales of openended mutual property funds are managed on the basis of sales quotas, whose volume is strictly determined by investment opportunities and the target liquidity ratio of the funds. With this active portfolio management as well as proven management of inflows and outflows, DekaBank was consistently present with "open funds" in the market once again in 2010, more so than any other competitors. In the future, stability of earnings for the funds will continue to be the primary goal of fund management in a competitive environment that remains challenging.

When AMI acquires new core properties, sustainability aspects are a key criterion. In addition, the share of certified green buildings in the portfolio is increased, including through targeted investment in existing properties.

In view of the imminent requirements under the Investor Protection and Functionality Improvement Act, AMI is preparing for the introduction of this new legislation. According to the current discourse, a minimum holding period of two years for new investors and a one-year notice period for all investors are under discussion. The bill is expected to have a wide-ranging impact on demand. Building on its leading market position in retail property funds, the business division is now accelerating the expansion of institutional business.

Real Estate Lending

The strategic focus in Real Estate Lending (REL) is financing commercial properties in countries in which the investment companies also invest. In the current market environment, with the aim of increasing synergies and reducing risks, REL is particularly focusing on countries in which the Bank is represented via its own locations. Loans are only granted if they are eligible for capital market transactions, in other words if they are eligible for syndication. New business is only conducted with respect to property types for which the business division has longstanding expertise (hotels, shopping, office and logistics). REL concentrates on financing properties that facilitate third party use and which are passed on pro rata to savings banks, banks, funds and/or institutional investors. The role of REL as a credit provider for credit funds and syndication arranger for the savings banks and *Landesbanken* is set to be expanded further, also with a view to diversifying earnings. In addition, broad and direct access to key international property business partners provides a significant advantage for the business division as a whole and therefore for our investors. Very few of our competitors in property investment business can claim to offer this advantage.

Strategy in the C&M business division

The following tasks are pooled in the C&M business division:

- In the Markets sub-division: share, bond and derivatives brokerage, short-term products as well as ETF issuance and market making.
- In the Credits sub-division: access to credit funds, assets and public sector finance.
- In the Treasury sub-division: liquidity supply and management as well as bank management and refinancing.

As a service provider, C&M is consistently geared to expanding and optimising the value-creation chain in Asset Management. To this end, primary customers and other institutional clients are offered execution services and asset generation as required.

On the basis of DekaBank's role within the *Sparkassen-Finanzgruppe*, the provision of liquidity to the Landesbanken and savings banks is a key factor in C&M's mission.

Markets sub-division

In **share, bond and derivatives brokerage**, the Markets sub-division provides services as part of implementing the asset management decisions of the funds, savings banks and other institutional clients. Starting from its strong position in traditional commission business with shares, bonds and derivatives, Markets is developing into an integrated provider of customised structured products for managing performance and hedging risks in the share, bond and derivatives brokerage business. The sub-division has responded to demand from customers for non-linear structures for guaranteed capital funds by intensifying the development and marketing of relevant products. The expansion of the business with bonds and derivatives enables C&M to offer institutional customers convincing fixed-income solutions from a single source. Particular attention is paid to expanding the structuring expertise. Structured multi asset solutions are used for professional risk hedging and straight forward representation of asset classes in funds and the savings banks and, amongst others, are utilised in guaranteed products and funds with clear yield target ranges. One example is the Delta 1 certificate, which makes it possible to subsequently add a stop loss feature to linear products.

In addition, commission business is offered in shares, bonds and exchange traded derivatives on behalf and for the account of intra-Group and external customers. In the medium to long-term, a significant share of derivatives which today are still traded off the floor are expected to be transferred to regulated markets with centralised clearing facilities. C&M's declared goal is to establish a high-performance infrastructure for centralised clearing.

Short-term products (money market and repo/lending) make two essential contributions for primary customers and other institutional clients of DekaBank.

- They generate and supply liquidity for the savings banks.
- They generate additional income for customers bylending securities from the portfolios of the investment funds and the Depot A (A securities account) of the savings banks and other institutional counterparties.

The business segment ensures its own collateralised refinancing in the maturity band of up to two years. This minimises counterparty risks in the interbank market. Furthermore, the aim is to supplement securities lending more extensively with synthetic instruments.

In addition, Markets is stepping up business **in exchange traded funds (ETFs)** for institutional customers. The ETFlab subsidiary is responsible for developing, setting up, marketing and managing the products, while market making and sales are bundled in the Linear Equity Risks and ETF Sales units of DekaBank in Frankfurt/Main; the units work closely with Institutional Sales. The strategic spectrum of ETFs is continually being further developed. In concrete terms, the plan is to launch bond ETFs in the bond markets of some eurozone countries and in various regions in the equity market. ETFlab will continue to pursue its conservative product philosophy, which benefits investors. At the same time, it will proceed with investments in market making and portfolio trading processes that are eligible for retail business. We also intend to expand product sales and thus support the savings banks in increasingly reflecting their passive investment through ETFlab products.

Credits sub-division

In the lending business (Credits sub-division), we are continuing our development from traditional finance provider to credit investor and risk manager for our own account as well as credit asset manager for institutional investors. The focus is on selected transactions with conservative structures. This relates in particular to the infrastructure, aircraft, cargo vessel and export finance credit segments.

The **public sector finance** segment comprises the financing of savings banks in Germany and, selectively, the public sector in Germany. Some of these financing transactions are used in the cover register for *Pfandbriefe* and covered bonds.

By offering tailored credit fund solutions, we enable our partners to participate in attractive credit assets. Depending on the level of external placement achieved, a moderate increase in new commitments will be a possibility from 2012 onwards, with the aim of supplying the various credit funds and alternative product formats with the requested assets.

Treasury sub-division

Liquidity supply and management ensures that DekaBank is in a position to provide public sector banks and its own funds with the required liquidity at all times. In view of the short-term demand, this function necessitates a sufficient liquidity reserve subject to stringent requirements in terms of turning the individual positions into ready cash.

The core function of **bank management and funding** is the implementation of DekaBank's liquidity positioning and liquidity risk management. Another key task is the responsibility for the funding throughout the entire banking business, using national and international money and capital markets, including the *Pfandbrief* business. Finally, bank management ensures the management of interest rate risks relating to DekaBank's bank book.

Strategy in Savings Banks Sales

Savings Banks Sales plays an important part in the Group's extensive market presence. It is the link between Asset Management and the customer advisers in the savings banks. Backed by an in-depth understanding of end customer requirements, Savings Banks Sales supports customer advisers in raising retail customers' awareness of the key strategic investment products as well as the underlying trends, for example during adviser and customer events. In 2010, the unit focused on supporting the savings banks in their differentiated customer approach. On the product side, fund-linked asset management and mixed fund concepts were at the forefront. These initiatives will be continued in 2011, including in connection with sales campaigns for the Deka-Vermögenskonzept, securities-based saving plans and fund-linked old-age provisioning in the affluent customer segment.

Strategy in non-core business

In non-core business, the Bank's strategy is still based on reducing the portfolio volume while safeguarding assets at the same time. Securities are regularly analysed in terms of their value and expected cash flow. Depending on market prospects, potential write-ups and risk parameters, including probability of default and spread fluctuations, the individual securities are examined to determine whether disposal in the short term or holding the securities to maturity is more advantageous. This approach is in line with DekaBank's value-oriented long-term strategy.

Sustainable business policy

DekaBank has adopted a sustainability strategy to reconcile the economic, environmental and social aspects of our business. The strategy is based on DekaBank's mission 2012, which reflects the Bank's commitment to a sustainable business policy. We intend to provide a forward-looking response to global and social challenges while at the same time exploiting economic opportunities in the interests of our shareholders – with a long-term, risk-oriented and responsible approach.

Our sustainability-related activities extend across four pillars: environmental management/sustainable banking, sustainable HR management, sustainable banking products and social responsibility. In the year under review, we aligned our business even more closely to the criteria defined in the sustainability strategy. Transparent and open communication of results and progress is one of the main criteria of our sustainability strategy. DekaBank is therefore publishing a sustainability report for the second time in accordance with the standards of the Global Reporting Initiative (GRI). By incorporating it in the Annual Report 2010, DekaBank is documenting that sustainability is an integral component of the Group's business activities and provides a fundamental point of reference as well.

Social responsibility

In line with the social policy objectives of the *Sparkassen-Finanzgruppe*, wide-ranging social commitment is a matter of course at DekaBank. Our focus is on promoting contemporary art and architecture as well as science, social projects and sports. As part of our social commitment and involvement, we work in close cooperation with renowned art and cultural organisations. Continuity and sustainability are key criteria for us in this regard. We invest in long-term partnerships in our own name and also support our employees' personal commitment in the community. Our Sustainability Report, which is incorporated into our Annual Report 2010, reports on specific activities related to our social commitment that we undertook in the year under review.

Risk and profit management at the DekaBank Group

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

Non-financial performance indicator

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

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

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

- Assets under management (AuM). Key elements include the income-related volume of mutual and special fund products in the AMK and AMI business divisions, direct investments in cooperation partner funds, the cooperation partner fund, third party fund and liquidity portions of fund-based asset management and the advisory/management mandates. For comparative purposes within the scope of the BVI statistics, we continue to use the fund assets according to the BVI.

- Fund performance and the fund rating to measure product quality; the average development period for new products and the share of new products in the sales results are used to measure innovation strength and innovation-related efficiency.

- The ratio of intra-alliance business (share of our products in total fund sales of the savings banks and *Landesbanken*) to measure our acceptance in the *Sparkassen-Finanzgruppe* and the payments to the alliance partners, which in combination with the economic result reflect our added value contribution in respect of our partners within the *Sparkassen-Finanzgruppe*.

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

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

For Corporate Centres, control systems have been developed which ensure that exacting service standards with regard to internal customers are adhered to. These systems are not used in external reporting.

We also establish staff-related key indicators, such as the age structure of our workforce (see page 25), and develop indicators to measure the implementation of our sustainability strategy.

Financial performance indicators

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

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

In principle, the economic result is based on the IFRS accounting standard and, along with net income before tax, includes changes to the revaluation reserve before tax as well as the interest rate-related valuation result from original lending and issuance business. This central management and performance variable was introduced in financial year 2005. As a result of the mixed model approach, net income before tax under IFRS is impacted by the different principles used for the valuation of the various assets and liabilities. This in turn means that not all income components which are relevant to the management's assessment of the profit situation are taken into account. In particular, net income before tax excludes both the revaluation reserve, which reflects the valuation result for securities in the available for sale category, and the interest rateinduced valuation result from hedged underlying transactions (loans and own issues) outside of hedge accounting under IAS 39.

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

Moreover, the economic result forms the basis for calculating adjusted, long-term economic Group net income. This variable, which is adjusted for non-recurring factors and any components that are not sustainable, forms the basis for the corporate valuation of DekaBank as part of medium-term planning. To this extent, the concept is also linked to DekaBank's business strategy, which focuses on sustainability (see page 9).

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

Economic environment

Overall economic trends

The recovery in the global economy, which had started in mid 2009, continued in 2010. By the start of the second half of the year, production had already returned to pre-financial market crisis level. Supported by robust company profits, considerably better economic data from the United States and pleasing financial results in Europe and the emerging markets, gross domestic product (GDP) in the key national economies initially rose faster than expected. However, the strong growth recorded in the first half of the year slowed significantly in the remaining six months of the year. For a time, there were concerns that the economy would slide back into recession. In addition, difficulties in the US labour and property markets persisted. Nevertheless, fears of a double dip recession soon proved to be unfounded.

In the USA, expansionary monetary and financial policy resulted in dynamic growth in investments in the corporate sector. Consumer spending by private households also increased. However, given that the labour market situation remained difficult and employment figures unexpectedly rose only conditionally, consumption remained at a low level. The US property market was also marked by further problems. Overall, with a 2.9% rise in the GDP, the economic upturn in the United States was more dynamic than in the eurozone, yet failed to meet expectations. The wait for a self-sustaining upturn therefore continues.

Conversely, the emerging markets recorded above-average growth. In most industrialised countries, production capacity was underutilised and the unemployment rates therefore remained high. At the same time, the emerging markets benefited from a stable economic environment, low market interest rates and a low inflation rate. During the year under review, the Asian national economies, in particular, continued the strong growth trend of previous years, whereas Brazil and Russia experienced a moderate cooling off. At 10.3%, China recorded the greatest growth – partly as a result of substantial investment activity. India primarily profited from strong domestic demand. Demand for goods on the part of the emerging markets also had a perceptible impact on the industrialised countries, significantly boosting GDP in the highly export-oriented industrialised economies of Germany and Japan. Japan, whose economic growth increased by 4.3% during the reporting year, was nevertheless affected by a currency that was too strong. Here, growth – at least in the third quarter of 2010 was based in part on the government's economic programme.

In total, global GDP rose by 4.9% during the reporting period. Within the eurozone, Germany emerged as the economic engine with an increase in GDP of 3.6%. Thanks to its focus on exports, the German economy benefited more than average from the global recovery in the year under review. For the first time in years, the contribution to economic growth from the rise in exports was accompanied by significant momentum from domestic economic activity. Although there was a lack of government incentives for consumers with regard to private consumption, it rose sharply on the previous year's level. The fact that the unemployment rate started to drop again for the first time as well as prospects of higher wage and salary increases and the lower inflation rate all had a positive impact.

Growth in the German economy was about double that of the rest of the eurozone, where the economic recovery was muted in the second half of the year due to the national debt crisis in the peripheral eurozone countries. In the reporting year, the single currency market faced growing tension regarding the financing terms in the capital markets for some of its member states. The European Stability Mechanism resolved at the extraordinary EU summit in May 2010 provides a rescue package totalling up to €750bn, which can be used to prevent eurozone countries from defaulting and which stipulates more stringent monitoring of the Stability and Growth Pact. In addition, the European Central Bank (ECB) intervened in the government bond markets to maintain liquidity. However, these decisions have also changed the nature of the European Monetary Union. It has been acknowledged for the first time that in addition to the cohesion aid by the EU, individual regions within the monetary union may require assistance from other regions. This aid is provided in the form of loans, which are repayable with interest and linked to economic policy conditions. Consequently, the EU Commission and International Monetary Fund have imposed stringent austerity measures on Greece and Ireland.

The national debt crisis ultimately resulted in a split between the member states. On one side, there are the PIIGS countries (Portugal, Ireland, Italy, Greece and Spain), which are curbing their growth potential and wage and salary increases for years to come with a strict savings policy aimed at restructuring the public sector. On the other side, countries such as Germany, Austria, Finland and the Netherlands are benefiting from the very low interest rate level in the eurozone, rising wages and salaries, investments and a stable labour market. However, the other eurozone countries and the UK have also started to consolidate their budgets, in order to secure long-term access to international capital. These savings measures put considerable pressure on the economy in some cases. Yet, a double dip recession is not to be feared in either the eurozone or the world as a whole.

In view of the unexpectedly severe national debt crisis and the economic pressure it triggered, the financial markets – especially in the eurozone – were dominated by the question of whether monetary and financial policy will truly consistently and quickly reduce liquidity and national deficits, so that the national economies will not depend on economic policy stimulus in the future. In our opinion, it will still take some time before the distortions in the financial sector and their impact have been completely eliminated. The problems in the financial markets and with regard to public finances keep flaring up. Many countries also face extensive structural changes and a consolidation of national finances. It is likely that the European stability mechanisms will be tested again, with the debt crisis remaining the greatest risk to Europe. However, we do not doubt that policy will ultimately take hold in the markets and that the euro will survive. Although it is no longer inconceivable that recommendations will be made for certain countries to leave the monetary union and others to be excluded, it remains highly unlikely.

Trends in capital markets

Over the course of the year, the capital markets benefited overall from the recovery in the global economy. During the reporting period, the quarterly figures reported by companies were more positive again. Banks also succeeded in improving their earnings, despite being affected by write-offs in traditional lending business. However, even though the annual reports published by companies provided a positive surprise for investors in the USA and Europe, therefore generating fundamental buy signals, most investors held back on opportunity-oriented investments for a long time. Concerns about the sustainability of the upturn and the stability of the financial system never eased completely, given the national debt crisis and the turmoil surrounding the euro. Accordingly, the stock markets fluctuated between pessimism and confidence for a long time. In the second half of the year, the upward trend finally prevailed. Particularly over the last few months of 2010, equity markets benefited from the good mix of high liquidity levels resulting from the expansionary monetary policy of the central banks, rising company profits and continued economic growth. The DAX, the German benchmark index, which started 2010 on a weak note, rose sharply and closed with 6,914 points at the end after climbing 16.1% on the 2009 year-end level.

Although conditions were generally positive for the equity markets, they proved rather more difficult for the bond markets. In the first six months of the year, the national debt crisis resulted in credit spreads widening in some eurozone countries. When the credit ratings of Greece, Portugal and Ireland, in particular, were downgraded, credit spreads for these countries rose sharply. In early May 2010, Greece was cut off completely from capital market financing and subsequently received bridge loans from the International Monetary Fund and the other countries in the European Monetary Union. The capital market was facing the possibility of investors losing all confidence in it, necessitating far-reaching resolutions on monetary and financial policy. The situation eased temporarily as a result of the Stability Growth Pact agreed on in May as well as the acquisition of government bonds from highly indebted eurozone countries by the ECB. However, investors were largely sceptical again in the second half of the year with regard to future developments in the eurozone. The consequence was a further widening of spreads on government and bank bonds. November and December 2010 especially saw widening of spreads, in some cases dramatic, on bonds from Greece, Ireland, Portugal and Spain as well as Italy and Belgium. Corporate and bank bonds subsequently also came under substantial selling pressure. Financials in particular were affected by the greater aversion to risk. Banks therefore increasingly used covered bonds to meet their funding requirement, as they could be easily placed with investors on the strength of their added security. This boosted new issuance activity, with industrial companies and financial institutions rushing to the market for new issues to benefit from the low interest rate level. The wave of issues in covered bonds continued uninterrupted.

German government bonds and US Treasuries remained in demand as a safe haven and yields repeatedly went from one record low to the next, especially at the short end of the yield curve. German Bunds had already reached a low with respect to yields in the summer, while US Treasuries turned upwards in the autumn after the Federal Reserve (Fed) launched an additional government bond buying programme.

With the debt crisis escalating in the eurozone, the single currency was dragged into an accelerating downward spiral. The nosedive of the euro only halted after the major rescue package of the EU Commission was in place and showing signs of success; that was when the currency's cautious recovery started. However, the euro's upward revaluation against the US dollar stopped in October after Quantitative Easing II was implemented in the USA. On the one hand, this was seen as a "dollar-friendly" impetus for the US economy, but on the other side, the markets quickly looked for a new "euro-critical" topic and the renewed European national debt crisis shifted into focus.

In the past year, the money market in the eurozone reflected the policy of the European Central Bank, which made liquidity available on a large scale. The savings bank sector's requirement for additional short-term funds was therefore limited. At the same time, demand for long-term funds for refinancing purposes remained high. In the future, the refinancing requirement will increase significantly, not least as a result of the new liquidity and funding requirements under Basel III.

Although commodity prices rose during the reporting year, they largely remained within the scope of what can be explained as part of the dynamic growth in global economic activity. Pre-crisis levels have yet to be achieved again in some cases. There were double-digit increases in the price of some precious metals, industrial metals and soft commodities. Gold was in great demand as a safe haven currency, the result being that the price of this precious metal has approximately doubled since the beginning of the crisis in the summer of 2007, both in US dollars and in euros, and has repeatedly reached all-time highs. The demand for silver and palladium increased as cheaper alternatives to gold and platinum. The soft commodities markets continued to be affected by production losses, which meant that prices rose there as well. The oil price also climbed in the reporting year – partly because the willingness to take risks slowly returned in the commodities markets. At the same time, the upswing of the global economy resulted in greater demand for oil worldwide.

Trends in property markets

At the European level, the office property markets developed better than expected during the reporting year. This applies, in particular, to the premium segment. Since investor demand focused predominantly on these core properties, the price gap between prime and secondary properties drifted farther apart. At the same time, the downturn in yields accelerated. In relation to the respective highs, the cities of London and Paris recorded the most marked decline in yields. Although the transaction volume rose again in the investment markets, it remained far below the level of the pre-crisis years. This is further proof that demand was primarily related to a limited number of top properties.

The rental markets also performed more positively than forecast in most European countries during 2010. With few exceptions, the decrease in rent was only minor and the cases where rent levels stagnated were also rare. London recorded growth in top rents again for the first time in two years. Rents in Paris also increased during the year under review. As a result of rising demand and a low volume of new construction, vacancy rates stabilised in most European markets. However, the average vacancy rate in Europe rose slightly. The supply only increased in Barcelona, Madrid and Luxembourg. In our view, the gap in terms of demand will continue to widen in the future between European countries with slow growth and countries with a strong structure. We expect demand to decrease in countries with limited growth potential and rise in high-growth countries.

In Germany, the transaction volume of commercial properties increased considerably in 2010 as compared with the previous year. The willingness of investors to take risks also remained low in this segment, with investors continuing to focus on core properties. The high demand for top properties resulted in a decline in top yields. Although Germany was below the European average in terms of total income, less volatility in total income means that the commercial investment markets in Germany are regarded as attractive and robust. Top rents in the key office markets in Germany largely remained stable, or in some cases fell slightly. Moderate decreases were recorded in Frankfurt/Main, Cologne and Munich in particular. The process to consolidate space in the German office markets mainly continued in the first half of 2010. For cost and efficiency reasons, companies concentrated their dispersed locations in one place, or relocated to more favourably priced sub-markets. However, this did not lead to a significant rise in vacancy rates. This was helped by the modest level of new construction, which remained approximately at the previous year's level. A large proportion of new office properties constructed were already pre-let or owner-occupied.

In the reporting year, the European markets for retail property in prime locations generally proved resilient to the crisis. The high level of demand from international and national retailers met with a limited supply. As a result, vacancies in retail space remained an exception. Conversely, secondary sites and poorly located shopping centres faced a more difficult situation. In the wake of the crisis, these recorded higher vacancy rates and a decline in rents. The recovery in the investment market progressed far more rapidly than in the rental market. Following a prolonged absence from the market, international investors increased their exposure again in Germany. Within the core segment, rising investment pressure combined with limited supply resulted in a slight decline in yields on retail as well as logistics and hotel properties.

Transaction volumes also rose in non-European countries in 2010. Similar to the European markets, mostly yields were considerably compressed for core properties. Developments in the rental markets outside of Europe varied substantially.

Sharper rises in rents were recorded especially in Asia. With the exception of Tokyo, hardly anywhere in the Far East saw a decline in rent levels. Despite the pleasing trend in the level of employment, demand for high-quality office space in Tokyo has yet to recover to any significant extent. Consolidation and cost cutting remained the priority for many companies. Consequently, the vacancy rate in Japan climbed to its highest level since 2000. In contrast, Hong Kong and Shanghai succeeded in reducing the number of vacancies. In the investment market, a stable price base formed in 2010. The focus on new development of office property has shifted to Asia since the financial market crisis. This resulted in a relatively sharp increase in office space, which is likely to persist in the region for some time. We believe that this growth in available space will put considerable pressure on some of the Asian rental markets.

In the USA, demand for office space in the class A segment rose perceptibly after a weak start at the beginning of the year, reaching the highest level in three years in the fourth quarter of 2010. At the same time, the completion rate fell to the lowest value for six years and the vacancy rate was therefore down again in this segment for the first time. However, the decline happened at a high level. Rent levels also continued to drop in most locations in 2010, due to the ongoing high vacancy rate. Conversely, investment market activities slowly started to increase once more. The market recovery gradually spilled over from the top locations on the east and west coast to secondary locations. In many markets, average initial yields (cap rates) already fell to low levels in some cases. However, there were some latecomers. For example, rising yields were recorded in the US office markets of Miami and Los Angeles. Refinancing difficulties remained a key issue in the investment market. Although there were already signs of the situation easing in individual market segments, the refinancing gap for commercial property had not yet been completely closed with new capital.

In Australia, office markets in the major cities recovered in parallel with growth in employment. Despite the financial market crisis, the Australian commodities market defied expectations and remained relatively strong, resulting in new construction projects which meant that the supply of rental space in Brisbane and Perth had already expanded again, despite the substantial rise in vacancy rates. Depending on the percentage of completion, the higher volume of new construction pushed up vacancy rates in some cases. Accordingly, the net face rent, i.e. top rents, declined. Top yields were also down.

Investor attitudes and sector development

The investment statistics of the *Bundesverband Investment und Asset Management* (BVI) reported considerably higher net funds inflows into mutual securities funds in 2010 than in the previous year. After net funds outflows of €1.5bn in 2009, funds attracted a net inflow totalling €17.7bn in the year under review. The primary reason for the higher net funds inflow was the demand for low-risk mixed funds and bond funds, which at €13.8bn and €9.9bn respectively were significantly up on the figures for 2009. The historically low interest rate level continued to have an impact, particularly on money market funds, which once again recorded funds outflows in the reporting year, although at €–16.8bn, these were on a smaller scale than in the previous year (€–30.2bn).

Investors' risk affinity remained comparatively low over the course of 2010 and they held back on promising investments for a long time. Despite the pleasing funds inflow in the fourth quarter, the amount from equity funds, totalling €10.2bn, fell short of the previous year's figure (€14.4bn). The volume of equity funds rose considerably thanks to their strong performance. Mixed funds also benefited from the share price boost. Investment fund companies attracted a net volume of €1.6bn with open-ended mutual property funds, commensurate with approximately half of the previous year's figure (€3.2bn). This figure reflects the ongoing pressure in the sector; some open-ended mutual property funds stopped issuing units, in order to prevent the outflow of funds and secure liquidity for the investment fund companies. In addition, the market was affected by the discussion about the Investor Protection and Functionality Improvement Act (see below).

At €70.9bn, special funds for institutional investors recorded approximately double the funds inflow of the previous year (€34.1bn). This reflects the sharp rise in demand from insurance companies and pension funds.

According to data from the *Deutsches Aktieninstitut* (Ger-man Equities Institute, DAI), the number of shareholders and holders of fund units declined to 8.2 million in 2010 (previous year: 8.8 million). This equates to a share of 12.6% of the population. Particularly noticeable was the drop in the number of equity fund investors, which fell from 6.6 million to 6.0 million within one year. Only mixed funds were able to win over new investors during the course of 2010.

Regulatory provisions

With regard to current new legislation, the *Anlegerschutz- und Funktionsverbesserungsgesetz* (Investor Protection and Functionality Improvement Act) is of particular importance to DekaBank. After protracted discussions, this act is expected to come into force in the first quarter of 2011.

The act provides for a minimum holding period of two years and a one-year period of notice for open-ended mutual property funds. In our view, this regulation may have a negative effect on demand for fund units. Conversely, the act could stabilise the situation in the sector and contribute to restoring investor confidence. DekaBank has promptly implemented the documentation requirements resulting from the act with regard to fund units bought and redeemed. This also applies to the other provisions stipulated in the act, which relate to the provision of product information leaflets and the key investor information required for investment funds.

In 2010, the Basel Committee for Banking Supervision (BCBS) adopted new standards on the availability of adequate equity, the leverage ratio and on liquidity standards (Basel III). These are to be implemented swiftly at the European and national level and are scheduled to be binding starting in 2013. With the new regulations, the Committee has responded to the experience gained from the financial market and economic crisis.

The requirements in terms of the amount and quality of equity will gradually be made more stringent over the coming years. An initially unchanged minimum equity backing of 8% will be followed by an increase in the core capital ratio from the current 4% to 6% in the period from 2013 to 2015. Tier 1 capital (share capital, capital reserves and the reserve from retained earnings) accounts for 75% of this. In addition, a capital preservation buffer of 2.5% must be set up by early 2019, also consisting of tier 1 capital. The result is that tier 1 capital must amount to at least 7% from 2019 onwards, with the regulatory required total capital ratio amounting to 10.5%. Maintaining the capital ratios is made more difficult by the tighter requirements regarding the different types of capital (particularly including silent capital contributions) and also the fact that capital deductions will primarily affect tier 1 capital. In addition to qualitative and quantitative changes in capital, the introduction of capital requirements for risks arising from credit valuation adjustments (CVA) and the rise in the risk weighting of transactions with a central counterparty and companies in the financial sector will result in an increase in the risk weighted average of derivative transactions.

The stricter capital requirements for market price risks in the trading book, which will already take effect on 31 December 2011, are not relevant to DekaBank, since it applies the standard approach.

Basel III includes two new ratios for the implementation of higher liquidity standards. The liquidity coverage ratio (LCR) is aimed at ensuring that, in a stress scenario, the highly liquid liquidity reserve is able to compensate for a massive funds outflow for 30 days. The net stable funding ratio (NSFR) safeguards long-term sound funding. The ratios will be mandatory as of the start of 2015 (LCR) and 2018 (NSFR) respectively.

Finally, the leverage ratio stipulates that the ratio of tier 1 capital to total borrowings (non risk-weighted assets) must be a minimum of 3%. After a five-year observation period, the leverage ratio is to be integrated into pillar 1 (capital requirements) of Basel III at the beginning of 2018.

Although Basel III will not apply until 2013, DekaBank is already making extensive preparations for the new regulatory requirements. In 2010, DekaBank participated in the quantitative impact study on the future introduction of Basel III (QIS 6), in order to be aware of the impact and required action at the earliest possible stage. DekaBank will also take part in the repeat of the impact study planned for this year as part of the finalisation of Basel III requirements. Furthermore, project activities to implement the new requirements have already started. During this process, the interests of our alliance partners are taken into account. This includes developing products that are tailored to the requirements of the savings banks and comply with the Basel III standards as well as answering technical questions.

The *Gesetz zur Restrukturierung und geordneten Abwicklung von Kreditinstituten, zur Errichtung eines Restrukturierungsfonds für Kreditinstitute und zur Verlängerung der Verjährungsfrist der aktienrechtlichen Organhaftung* (German act on the restructuring and proper winding-up of banks and financial institutions, the establishment of a restructuring fund for banks and financial institutions and the extension of the limitation period for officers' liability under stock corporation law), called the Restructuring Act, came into force at the turn of the year. The act expands the rights of the banking supervision to intervene in the necessary restructuring of banks that are relevant to the system and facilitates the transfer of system-relevant business divisions to a government bridge bank in separate insolvency proceedings. Moreover, the Federal Agency for Financial Market Stabilisation (FMSA) is setting up a restructuring fund with a target volume of €70bn, which is funded by contributions from the banking industry. Financial institutions in Germany will be required to raise a total of around €1bn per year, with the bank levy for each financial institution specified each year, based on its business volume, size and corporate ties. A reasonability limit of 15% of the respective bank's net income for the year is planned. However, no pertinent legislation had been passed by the editorial deadline of this Group Management Report.

Business development and profit performance in the DekaBank Group

Overall assessment by the Board of Management

Tailored to the requirements of the savings banks and their customers, DekaBank's business model once again proved its stability under the changed market conditions in 2010. The increase in the economic result to €925.1m largely resulted from higher net commission income due to the positive performance of the Deka fund products and the opportunity to write back provisions for loan losses in the wake of positive market developments. Write-ups and profits on capital market credit products also contributed substantially to this result. Some of these developments will not recur in 2011.

Overall, demand for our mutual securities funds remained restrained. Although we assess the slight rise in net sales as positive, we had higher expectations, also in view of the strong performance of our funds. We therefore launched and continued a series of measures in the reporting year, with the aim of meeting the requirements of our various customer groups as individually as possible with innovative products and offering even more targeted support to advisers in the savings banks. We also participate in sector-wide initiatives to strengthen the role of investment funds in the formation of financial assets. An additional focus is on institutional business, where we have not yet sufficiently utilised our existing potential.

On the whole, our funds profited very well from the price boost on the stock exchanges. At year-end, 34.4% of our equity and bond funds featured higher than average ratings. The year-on-year increase in assets under management (AMK and AMI) from €151.2bn to €155.2bn has underpinned our good market positioning. In terms of fund assets, according to the BVI, the DekaBank Group remained in second place for mutual securities funds in the German market at year-end 2010. With regard to open-ended mutual property funds, we have maintained our position as the market leader.

At 77.5%, the ratio of intra-alliance business, or the share of our products in total fund sales of sales partners, was at a high level, but did not match the previous year's figure (81.3%). In close cooperation with our partners in the *Sparkassen-Finanzgruppe*, we are working on improving this ratio over the long-term, both through new products and intensified sales. At €0.9bn, payments to the alliance partners were at the previous year's level (€0.9bn). The added value contribution of DekaBank to the Landesbanken and savings banks, which comprises payments to the alliance partners and the economic result, climbed from around €1.5bn in the previous year to €1.8bn in financial year 2010.

In line with expectations, the C&M business division failed to match the previous year's result, which was achieved under extraordinary market conditions. The trading result came in below our forecast. Similar to other market players, we had assumed that the ECB would substantially restrict its unlimited liquidity supply in the course of the year. Moreover, customer trading activities fell well short of expectations in 2010.

DekaBank's financial strength was confirmed in the reporting year, including by the results of the stress test conducted by the Committee of European Banking Supervisors (CEBS). Under stringent scenario conditions, the DekaBank Group significantly exceeded the 6% lower threshold set by the supervisory authorities with a comfortable tier 1 ratio of 8.4% as at the end of 2011. The result of the stress test confirms the strong capitalisation of DekaBank, even in extreme crisis situations.

Standard & Poor's and Moody's, the leading international rating agencies, affirmed their strong ratings for DekaBank. The rating for long-term unsecured debt continued to be A (by S&P) and Aa2 (by Moody's), with both agencies stating a stable outlook.

Profit performance in the DekaBank

In the financial year ended, DekaBank once again achieved satisfactory results. The total of net interest and net commission income, trading profit or loss and other operating income amounted to €1,251m. Net interest income and net income from equity investments decreased by €652m to €617m (previous year: €1,269m). Net interest income declined by 75% to €260m compared with the previous year's figure, essentially as a result of a change in reporting income from trades in accordance with the provisions of the Accounting Law Modernisation Act (BilMoG). This income is now reported under the trading result. Conversely, net income from equity investments rose by more than 50% to €357m following an increase in profit distributions and profit transfers.

Net commission income increased somewhat and at €190m was slightly up on the previous year's figure of €181m. With a positive trading result of €139m (previous year: €–304m), the item ordinary operating income amounted to €1,251m, which represents a decrease of €193m on the previous year. Other operating income totalled €305m (previous year: €298m). Intra-Group services once again accounted for the major share of this item. In the financial year ended, operating expenses changed by 4%, rising slightly to €715m. Operating expenses were virtually at a steady level and including depreciation rose by 2.5% to €335m.

As at the reporting date, net income before risks amounted to €536m and was €221m down on the previous year's level. The balance of the valuation result from lending business, securities business and equity investments totalled €182m in the financial year ended (previous year: €–202m). The positive valuation result reflects a marked decrease in provisions for loan losses compared with the previous year, in particular as a result of a lower allocation to specific valuation allowances. Revaluations in securities business also impacted favourably on the valuation result.

After deduction of tax on profits and the allocation to the fund for general banking risks to strengthen core capital, DekaBank achieved operating profit after tax of €86m, which significantly outstripped the previous year's level (Abb. 1).

Business development in the AMK business division

Despite further pressure on the capital market and a continuing marked restraint on the part of investors in terms of securities investments, the AMK business division succeeded in further stabilising new business and achieving added value for customers. Irrespective of some positive sales trends, total net sales remained slightly negative as in the previous year. Net funds outflows from money market and bond funds were not entirely compensated by successful sales results in mixed funds and target return funds as well as net funds inflows into special funds and mandates.

Net sales performance and assets under management

AMK's net sales performance totalled €–0.8bn. Compared with the previous year's figure (€–2.5bn), institutional business, in particular, recorded growth (Fig. 2).

AMK sales performance *(Fig. 2)*

€m	2010	2009
Direct sales mutual funds	-3,553	-3,755
Fund-based asset management	-1,534	-1,769
Mutual funds and fund-based asset management	**-5,087**	**-5,524**
Special funds and mandates	4,294	3,046
Net sales AMK	**-793**	**-2,478**
For information purposes:		
Net funds inflow AMK (according to BVI)	**-3,066**	**-6,099**

Net sales of mutual securities funds and fund-based asset management amounted to €–5.1bn (previous year: €–5.5bn). Approximately two-thirds of the net funds outflows occurred in the first half of the year, and thus funds outflows were slightly lower in the second half of the year. The low interest rate level and discontinuation of the previous preferential treatment of existing portfolios of tax-optimised money market funds resulted in an extensive return of fund units in this fund category. With regard to bond funds, the inflow of funds was affected by uncertainty amongst investors following the national debt crises in the eurozone. In contrast, mixed funds and in particular total return products were popular with security-oriented investors and attracted substantial inflows. Launched in financial year 2010, the Deka-Wertkonzept product series accounted for the highest share of direct sales and was also a prominent factor for Sales (see page 20). Net sales of target return funds also exceeded the previous year's performance. Total net sales of equity funds were just in the negative range, however, with a rising trend in sales in the second half of the year. In fund-based asset management, net sales also increased on the previous year (€–1.8bn); however, at €–1.5bn, they still closed in the negative

Profit performance at DekaBank *(Fig. 1)*

€m	2010	2009	Change	
Net interest income	617	1.269	-652	-51.4%
Net commission income	190	181	9	5.0%
Trading result	139	-304	443	145.7%
General administrative expenses	605	597	8	1.3%
Risk provision/valuation	182	-202	384	190.1%
Income tax	83	16	67	(> 300%)
Net income after tax	**86**	**57**	**29**	**50.9%**

range. The upward trend was mainly achieved by reducing outflows from the Sparkassen-DynamikDepot, primarily as a result of concept-related changes implemented in the previous year, and from funds of funds.

Sales of special securities funds as well as Master KAG and advisory/management mandates climbed 41% to €4.3bn (previous year: €3.0bn) and therefore contributed significantly to the increase in total net AMK sales. The sales performance of Master KAG mandates was the decisive factor here; as a result of the high level of customer satisfaction at the savings banks and institutional customers, these recorded net funds inflows of €2.6bn (previous year: €0.9bn). Special funds realised net sales totalling €0.1bn (previous year: €0.9bn) while net sales with regard to advisory/management mandates rose to €1.5bn (previous year: €1.2bn). These developments demonstrate that AMK is making good progress with the realignment of its institutional business and has continued to restore investor confidence on the strength of the enhanced product and support quality.

Following the marked rise in 2009, assets under management in the AMK division increased by a further €2.4bn, to €132.5bn, in the reporting year. Decisive factors here included the high level of net funds inflows recorded in respect of special funds and mandates as well as the strong performance (Fig. 3).

With regard to mutual funds and fund-based asset management, the volume of assets under management totalled €90.4bn (previous year: €90.9bn). Money market funds, which two years ago accounted for a share of around 29% of total assets, only accounted for 14% of assets under management, whereas the share of equity funds increased from approximately 18% to 25%.

The DekaBank Group achieved a 16.7% share of the mutual securities funds market in terms of assets according to the BVI. We thus maintained our second place market position amongst the BVI members, despite minor losses in the market share.

With respect to special funds and mandates, assets under management rose by around 7%, to €42.1bn (previous year: €39.3bn). With an increase of 18%, to €20.6bn, Master KAG mandates also recorded substantial growth in assets.

Assets under management AMK *(Fig. 3)*

€m	31.12.2010	31.12.2009	Change	
Equity funds	22,183	19,900	2,283	11.5%
Capital protected funds	6,085	6,245	-160	-2.6%
Bond funds	25,905	28,070	-2,165	-7.7%
Money market funds	12,429	17,148	-4,719	-27.5%
Mixed funds	9,501	6,389	3,112	48.7%
Other mutual funds	4,563	4,405	158	3.6%
Owned mutual funds	**80,666**	**82,157**	**-1,491**	**-1.8%**
Partner funds, third party funds/liquidity in fund-based asset management	7,505	6,851	654	9.5%
Partner funds from direct sales	2,181	1,855	326	17.6%
Mutual funds and fund-based asset management	**90,352**	**90,863**	**-511**	**-0.6%**
Special securities funds	29,412	28,426	986	3.5%
Advisory/management mandates	12,707	10,826	1,881	17.4%
Special funds and mandates	**42,119**	**39,252**	**2,867**	**7.3%**
Assets under management AMK	**132,471**	**130,115**	**2,356**	**1.8%**
For information purposes:				
Fund assets – mutual funds AMK (according to BVI)	**103,890**	**105,521**	**-1,631**	**-1.5%**
Fund assets – special funds AMK (according to BVI)	**49,962**	**45,893**	**4,069**	**8.9%**

Expanded product range

In financial year 2010, AMK further developed its range of financial asset formation products for savings bank customers. As was already the case in 2009, individual funds and fund unit classes were closed or merged on a tax-neutral basis. At the same time, new products were launched in all major fund categories, which met with a high level of demand overall. In particular, AMK focused on responding to the fact that investors are first and foremost still seeking security, and concentrated on a differentiated approach to the various customer segments.

Mixed investment funds offer a mix of asset classes and a wide range of instruments to respond specifically to investors' need for a reliable return in conjunction with limited risk. In view of the growing demand, we have expanded the spectrum of mixed funds to include an innovative total return product series, which was positioned in the market under the Deka-Wertkonzept name.

The range of guaranteed funds was also further developed. Deka-DeutschlandGarant 2 and 3 were newly launched with considerable success. These funds facilitate participation in the German equity market in combination with the security of capital protection. With regard to equity funds, the new Deka-DividendenStrategie needs to be mentioned: this fund invests on a global level in listed companies which provide above-average dividend quality. The Deka-Staatsanleihen Europa fund was added as a new bond fund. This fund exploits different interest rate trends by investing in selected government bonds and state-backed securities from eurozone countries and western European countries outside the eurozone, thus taking into account the changed conditions in the government bond market. The new Deka-Währungen Global fund launched as an alternative investment represents an attractive portfolio addition. With a focus on foreign currency, there is little correlation with other asset classes, and it provides a hedging option against devaluation of the euro.

We have updated our product assortment as well as the comprehensive advisory approach for wealthy private customers of the savings banks. Developed in the reporting year, the Deka-Vermögenskonzept (see page 6) represents another further development with respect to the affluent customer segment of the savings banks.

Fund performance and rating

As at year-end 2010 and in a highly volatile market environment, 48.9% of our equity funds and 71.7% of our bond funds outperformed their relevant benchmark. The positive performance also had a favourable impact on fund ratings, with 34.4% of our funds featuring an above-average rating from investment research firm Morningstar in the three to ten-year monitoring period at the end of 2010.

In key performance comparisons of providers of mutual securities funds, the DekaBank Group consistently achieved an excellent ranking during the year under review. At the €uro Fund-Awards, twelve of our funds were amongst the top three products. The four funds which came in first place in their categories included the Deka-Convergence Aktien fund, with above-average performance over a fiveyear period. At the Feri EuroRating Awards 2010, the fund was also distinguished as "Best Central/Eastern Europe Equity Fund".

AMK achieved other top rankings at the Lipper Fund Awards in March, winning awards for consistent investment success of five funds. Deka-Euroland Balance CF, a mixed fund, received two prizes for best performance over a three and five year period. At the Morningstar Fund Awards in April 2010, Deka Investment was named best major provider of bond funds – after attaining second place in the previous year. Deka Investment demonstrated the best five-year performance amongst 15 providers. In total, 28 bond funds were rated. We were also successful at the first ever VisioFund-Awards. These awards honoured the most successful asset management-based funds of funds in 2009. We finished as best provider with 22 awards for 15 different funds.

Business development in the AMI business division

DekaBank's close integration with the savings banks ensured that the AMI business division remained on course, despite massive market pressures. Our open-ended mutual property funds consistently remained open and achieved a further increase in fund assets, while other providers were forced to suspend acceptance of returned fund units due to liquidity difficulties or even had to remove their funds from the market. Good utilisation of sales quotas and the exploitation of opportunities to buy at favourable conditions meant that the liquidity ratios remained in the target range. In addition, excellent sales were achieved in the recovering property market, thus optimising the portfolio. Thanks to the letting ratio, which exceeded forecasts, vacancy rates changed only to a negligible extent under difficult market conditions. Worth highlighting here is the long-term re-letting agreement for the major Poseidon bank office building in Frankfurt/Main, with more than 40,000 square metres of total floor space, which was signed in December 2010. Targeted investments in portfolio properties, including the revitalisation of a department store in Vienna, additionally contributed to creating the basis for positive property performance over the long run.

The streamlining of the range of retail products in the previous year – Deka-ImmobilienFonds was merged with Deka-ImmobilienEuropa and WestInvest 1 with WestInvest InterSelect – resulted, as planned, in even more robust structures of the managed portfolios. Institutional business was stepped up in 2010 according to schedule. However, the supply of properties which meet our quality requirements is still insufficient. As a result, the limited volume of acquired properties remains an obstacle to growth. In Real Estate Lending, the gross loan volume increased slightly on the previous year, mainly driven by currency movements. The focus continued to be on acquiring business which can be passed on to other institutional investors. This was successfully achieved via various external placement channels. Syndication business with banks and funds once again proved very successful.

Net sales performance and assets under management

Net sales of the AMI business division remained at a high level with €1.7bn after €2.5bn in the previous year. A substantial share was attributable to the fixed and limited sales quotas of open-ended mutual property funds, which were agreed on with the savings banks. By year-end, the quotas had been largely utilised, despite the nervous market sentiment and the debate surrounding regulation, whose dampening effect also impacted on our business. Direct sales of retail fund units totalled €1.5bn. Although these were down on the previous year's figure of €2.2bn because of the significantly lower quotas, they exceeded our forecasts. On the basis of the net funds inflow according to the BVI, market leader DekaBank achieved almost a third of the sales of all competitors, with positive funds inflows on the whole (Fig. 4).

AMI sales performance *(Fig. 4)*

€m	2010	2009
Mutual property funds	1,472	2,166
Property funds of funds	-11	0
Special funds (incl. credit funds)	222	191
Individual property funds	18	122
Net sales AMI	**1,701**	**2,479**
of which to institutional investors	486	406
For information purposes:		
Net funds inflow AMI (according to BVI)	**1,670**	**2,257**

In institutional property fund business, the open-ended ImmoValue property fund and the TargetSelect series attracted new funds amounting to €389m. For the special and individual funds, which tend to make smaller investments, the buy markets were not yet sufficiently profitable. New funds acquired in respect of these products only totalled €199m (previous year: €457m).

After distributions of €646m, assets under management in the AMI business division rose by 7.7% on year-end 2009 (€21.1bn), to around €22.8bn. Open-ended mutual property funds contributed €20.0bn (end of 2009: €18.7bn) to assets under management. On the basis of fund assets according to the BVI, the market share increased from 21.6% to 23.3% within a year (Fig. 5).

Assets under management AMI *(Fig. 5)*

€m	31.12.2010	31.12.2009	Change	
Mutual property funds	19,996	18,743	1,253	6.7%
Property funds of funds	94	107	-13	-12.1%
Special funds	2,324	1,959	365	18.6%
Individual property funds	337	319	18	5.6%
Assets under management AMI	**22,751**	**21,128**	**1,623**	**7.7%**
For information purposes:				
Fund assets AMI (according to BVI)	**21,848**	**20,312**	**1,536**	**7.6%**

The open-ended mutual property funds utilised the available financial leeway to acquire further attractive properties, with a particular focus on certified green buildings. All property acquisitions were handled on a centralised basis by Deka Immobilien. Overall, the funds secured contracts for buying 27 properties in the reporting year worth €2.4bn (previous year: €2.1bn) and located in 10 countries. This once again made the DekaBank Group one of the major property investors worldwide. In addition, Deka Immobilien sold 16 properties from the funds, located in 7 countries, with a volume totalling €0.8bn – at a profit for investors.

Expanded offering

After positioning the WestInvest TargetSelect product family and the two credit funds, Deka Infrastrukturkredit and Deka Realkredit Klassik, on the market in the previous year, DekaBank no longer focused on further expanding its range of products in the reporting year. The primary aim was to leverage the existing potential in institutional business to an even greater extent and acquire properties and loans in the market with a risk/reward profile that is suitable for the funds.

Fund performance and rating

With an average volume-weighted yield of 2.4%, our open-ended mutual property funds outstripped the sector average. However, the previous year's performance (3.0%) was not matched, mainly as a result of the low interest on existing liquidity. In relation to the benchmark, the Deka-ImmobilienGlobal, Deka-ImmobilienEuropa and WestInvest ImmoValue funds occupied top positions again in the reporting year.

In rating comparisons, the stability of our open-ended mutual property funds was also convincing. In the analysis published by the agency Scope Analysis in May 2010, all three open-ended mutual property funds of the DekaBank Group were rated investment grade. In the reporting year, Deka-ImmobilienGlobal was once again given the accolade of best global fund for private investors and WestInvest ImmoValue received the award for best property portfolio. Scope also distinguished the management quality by giving strong ratings for the DekaBank Group's two property capital investment companies. With regard to Deka-ImmobilienGlobal, the commitment at an early stage and against the cyclical trend in the global markets beyond Europe was praised.

Real Estate Lending

In Real Estate Lending (REL), we continued to concentrate on markets, property types and business partners which are also relevant to our property funds. We were most active in those markets where we have representative offices. In addition, loans were granted to DekaBank's own and third party open-ended property funds which are governed by the German Investment Act.

Loans were granted on a strictly risk-aware basis and consistently focused on capital market eligibility. The volume of new business arranged totalled €2.5bn at year-end and was up on the previous year's level (€2.0bn). This figure comprises extensions of €0.2bn each. A pleasing amount of €1.3bn was successfully placed externally (previous year: €1.1bn). The gross loan volume rose to €7.7bn by year-end 2010 (end of 2009: €6.9bn), largely due to currency effects. Commercial property financing accounted for a share of €5.3bn and property fund financing for €1.9bn. The remaining amount was attributable to the financing of public sector construction projects, a segment which is being phased out. The average rating in the portfolio showed a slight upward trend as compared with the previous year. In new business, lower loan-to-value ratios meant that ratings continued to be excellent, whereas the portfolio-based business, as expected, saw further migration to weaker ratings.

Business development in the C&M business division

The capital markets were dominated by the national debt crises in Europe resulting from the financial market crisis. This will have an impact on global growth for years to come. In a changed market environment, the volume of trading and sales activities reflected a downward trend. The decrease in derivatives brokerage was countered by the commission business, which exceeded expectations. With regard to ETFs, net sales were up on the previous year's level. In line with expectations, C&M's economic result fell short of the previous year's figure. The economic result included measures taken to compensate for the negative valuation result from capital market credit products in non-core business.

Business development in the C&M business division

Markets sub-division

In **share, bond and derivatives brokerage**, customer trading activities declined overall. In particular, demand from capital investment companies and other institutional customers for the derivative product solutions offered by C&M was down on the previous year's figures. On the one hand, funds outflows from money market funds affected the figure. On the other hand, interest rate derivatives brokerage was primarily affected by the collapse of the primary market in bonds. The high comparative volumes achieved in customer trading in the previous year, which related to fixed-income securities under new corporate bond issues, resulted from the substantial market recovery which followed the peak of the financial market crisis as well as from a high level of volatility.

Traditional commission business delivered a steady performance at a high level and exceeded forecasts. The business division benefited from higher demand on the part of capital investment companies resulting from the greater fund volume and temporarily higher market volatility.

Margins in repo/lending business (**short-term products**) came under significant pressure in financial year 2010. This was essentially caused by the ECB's extensive provision of liquidity. Nevertheless, we succeeded in generating additional income for the savings banks and funds during the reporting year. Synthetic transactions accounted for a higher share than in the previous year. In the second half of the year, we also experienced growing demand for collateralised short-term credit lines – partly in view of expectations that the liquidity supply by the ECB would be restricted and in light of the future provisions under Basel III regarding the weighting of risk assets, short and long-term refinancing and the maximum leverage ratio.

We expanded the exchange traded funds (ETF) product range of our subsidiary ETFlab on the basis of the requirements of our target customers and their various investment strategies. Due to the high demand from institutional customers for bond ETFs in the core markets, the focus of activities was on the fixed-income side. Two new ETFs launched provide access to a broadly diversified pool of euro-denominated corporate bonds and the highly liquid German jumbo *Pfandbrief* market. The total number of available ETFs rose to 35. Additional index funds, which will selectively target the bond markets of individual countries within the eurozone as well as euro-denominated corporate bonds excluding financials, were in the pipeline as at year-end. Net sales of €1,177m exceeded the previous year's figure (€1,030m). We benefited from this, reducing our own portfolio of ETFlab fund units. The total volume amounted to €5.0bn at year-end 2010 (end of 2009: €4.7bn). The Bank's own portfolios accounted for 38.7% (previous year: 45.4%) of the total volume. They are used to ensure a liquid and efficient market and support customers in complying with investment limits.

As part of an investor survey conducted by investment magazine *Börse online*, ETFlab was distinguished as best ETF provider of 2010. According to the final ranking, the company enjoys the highest level of trust among all ETF providers and also achieved top scores for innovative products, low fees, cost transparency as well as for easy accessibility and personal availability of our staff. The company's conservative philosophy is also rewarded by many investors. Wherever possible, ETFlab fully replicates the underlying indices.

Credits sub-division

In the Credits sub-division, the gross loan volume amounted to €30.5bn at year-end 2010, which represents a decline of 10.8% on the previous year (end 2009: €34.2bn). In financial year 2010, a major proportion of risk capital once again related to **public sector financing**. As at the reporting date, the gross loan volume attributable to our partners in the *Sparkassen-Finanzgruppe* totalled €15.5bn (end of 2009: €15.6bn). A further €4.4bn (end of 2009: €5.7bn) was granted to other public sector borrowers in Germany, with loans to local authorities accounting for the largest share. On the strength of this volume, DekaBank consolidated its position as one of the banks of choice for the long-term refinancing of savings banks.

In addition, Credits continues to concentrate on ensuring **access to credit fund assets** for Asset Management. The focus was on the evaluation of credit segments and collateral formats that are eligible for Asset Management. In this context, we paid particular attention to the external placement of loans in funds. In the infrastructure finance segment, we started implementing the credit fund business model. The first loans were successfully placed with customers under the umbrella of the Deka Loan Investment Fund (DeLI), enabling us to subsequently enter into new commitments again based on a cautious approach.

In the year under review, Credits started to actively pass on loans. The launch of DeLI funds and other customised Asset Management solutions for ship and aircraft financing and ECA-covered export finance is scheduled to start in 2011. Based on the steady cash flow, an extremely low default rate and sound financing throughout the entire term, these credit assets are generally ideal for fund and loan syndication models.

Treasury sub-division
The Treasury sub-division pools the tasks related to **liquidity supply and management** and ensures that DekaBank is in a position to provide public sector banks and its own funds with the required liquidity at all times. In view of the short-term demand in each cases, this function necessitates a sufficient liquidity reserve with stringent requirements in terms of turning the individual positions into ready cash.

The core functions of **bank management and refinancing** are the implementation of DekaBank's liquidity positioning as well as liquidity management and the responsibility for refinancing throughout the entire banking business. The gross volume in Treasury remained at a high level of €20.8bn as at the 2010 reporting date (end 2009: €23.5bn). The net volume of the non-structured capital market credit products in the core business that are held by the Treasury sub-division amounted to €5.5bn at the 2010 year-end (end of 2009: €7.4bn). This corresponds to a decline of 25.7%.

Business development in non-core business
In non-core business, we pursued our strategy of reducing the portfolio while safeguarding assets at the same time. The gross loan volume of lending business and credit substitute transactions that do not represent core business decreased from 18.5% to €6.6bn within a year (end of 2009: €8.1bn). The most marked decrease was in the securitisation portfolio, which amounted to a volume of €2.1bn at year-end 2010 (end of 2009: €2.9bn). In addition to expiring products and selected sales, early repayment by counterparties also impacted on this figure. The loan portfolio in non-core business was down to €3.8bn (end of 2009: €4.4bn), while the volume relating to the former Public Finance sub-division amounted to €0.7bn (end of 2009: €0.8bn). In line with the volume development in the course of reducing the portfolio as well as due to tightening spreads, the risk level has decreased considerably in non-core business.

Financial position and assets and liabilities

Balance sheet changes
The business volume at DekaBank fell by €18.9bn in 2010, or 12%, to €139.3bn (previous year: €158.2bn). The decline is mainly attributable to a change in reporting the market values of derivatives in the trading portfolio in accordance with the Accounting Law Modernisation Act (BilMoG). Total assets rose by €1.9bn, or 1.4%, from €130.0bn to €131.9bn. As a result of the change in reporting under BilMoG, significant decreases were reflected on the assets side of the Bank's balance sheet in the items amounts due from customers, amounts due from banks, bonds and other fixed-interest securities, shares and other non fixed-interest securities and other assets in favour of the new item trading portfolio. Amounts due from customers were down €2.2bn to €20.4bn and represented around 15% of total assets. Amounts due from banks fell by €10.9bn to €32.4bn (previous year: €43.3bn). This corresponds to a share of 24.6% of total assets (previous year: 33.3%). The new item trading portfolio amounted to €58.8bn. This corresponds to a share of 44.6% of total assets.

On the liabilities side, different reporting under BilMoG also resulted in a shift in favour of the new item trading portfolio. Amounts due to customers were down to €17.3bn (previous year: €19.8bn). Amounts due to banks fell by €17.3bn to €14.9bn (previous year: €32.2bn). Securitised liabilities decreased by €7.4bn to €34.7bn. The new item trading portfolio amounted to €58.6bn.

As at the reporting date, on-balance sheet equity amounted to €1.2bn (previous year: €1.4bn) and accounted for 0.9% of total assets (previous year: 1.1%).

Lending business
Lending business focused on lending to banks of €23.8bn (previous year: €28.7bn). This accounted for 49.6% of the total loan volume of €48.0bn (previous year: €56.0bn). The volume of loans to customers of €20.4bn was €1.0bn below the figure at year-end 2009. Contingent liabilities of €1.6bn were down €1.6bn on the previous year's figure. Irrevocable credit commitments totalled €2.3bn, which represents a decrease of €0.5bn on the comparable figure in the previous year.

Money transactions
Money transactions related mainly to banks in Germany and abroad. Investments in money on call and time deposits amounted to a total volume of €8.6bn at year-end 2010 (previous year: €15.9bn). This decline is largely attributable to the fact that the previous year's figure included securities repurchase transactions, which are now reported under the trading portfolio (in accordance with BilMoG); (see the section on the trading portfolio).

Securities portfolio
As at the reporting date of 31 December 2010, the balance sheet item bonds and other fixed-interest securities

totalled €14.9bn. This represents a decrease or rather shift of €23.4bn to the new item trading portfolio over the course of the year. The balance sheet item shares and other non fixed-interest securities decreased by €6.8bn to €4.0bn. With a volume of €18.9bn, the portfolio of securities not held for trading was attributable to the liquidity reserve 75.0% and investments 25.0%.

Trading portfolio

The new item trading portfolio (trading assets) to be reported under BilMoG amounted to €58.8bn as at the reporting date. Bonds and debt securities (€20.7bn), derivatives (€19.2bn) and securities repurchase transactions (€11.0bn) accounted for the greatest share of this item.

Change in regulatory capital

DekaBank's capital and reserves in accordance with the German Banking Act (KWG) amounted to approximately €3.9bn as at 31 December 2010, which represents a rise of €0.3bn on the previous year. Core capital of €3.1bn accounts for the largest share of capital and reserves. Core capital also includes silent capital contributions (€0.5bn), which essentially are of a permanent nature.

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

The capital and reserves principle under banking supervisory law was complied with at all times throughout 2010, both at Bank and Group level (Abb. 6).

The liquidity ratio at DekaBank ranged from 1.4 to 1.8 in the year under review and exceeded the minimum requirement of 1.0 at all times.

Employees

Changes in staff complement

Following a marked decrease in the number of employees in the previous year, this figure remained almost constant in the reporting year. At year-end 2010, the number of employees in the DekaBank Group amounted to 3,683, and was thus virtually the same as in the previous year (3,667). However, at 3,174, the average number of positions filled was 3.6% down on the previous year (3,294). The main reason was the reduction in staff capacity in the comparative year as part of the Group-wide quality and process campaign launched in 2009. The staff capacity was primarily reduced through retirement agreements and voluntary redundancy options. The different development in the number of employees and staff capacity should be seen in connection with the increase in part-time positions, which are also in line with the targets defined in the quality and process campaign. Furthermore, the number of employees rose in some areas of the bank during the second half of the year, with the expanded commitment to our activities in Luxembourg and the launch of major projects especially having an impact.

On average for the year, 85.3% (previous year: 86.3%) of the staff employed were in full-time posts. The average employee age was 40.2 years (previous year: 39.7 years).

Breakdown of equity *(Fig. 6)*

€m	31.12.2010	31.12.2009	Change
Core capital	3,086	2,630	17.3%
Supplementary capital	802	963	-16.7%
Tier III capital			n.a.
Capital and reserves	**3,888**	**3,593**	**8.2%**
Default risks	17,926	19,937	-10.1%
Market risk positions	5,381	6,943	-22.5%
Operational risks	1,110	1,151	-3.6%
%			**Change %points**
Core capital ratio (including market risk positions)	**12.6**	**9.4**	**3,2%**
Total capital ratio	**15.9**	**12.8**	**3,1%**

Management culture and leadership

In the second quarter of 2010, we invited employees to take part in a survey, including individual manager feedback. Both of these tools provide us with a differentiated view of the management culture lived in the Group. As a result of the representative findings, previously unutilised potential relating to leadership in the Group was clearly identified. The evaluation of the questionnaires was followed by discussions with the relevant teams, during which concrete development measures were agreed on. These will extend until 2012.

Building on this, we started a Group-wide project for the development, introduction and binding implementation of a uniform concept and understanding of management responsibility within DekaBank. All of the relevant units are involved in the project. Among other things, the aim is to describe management roles and decision-making processes in detail, define the appropriate priorities in day-to-day business to ensure efficient team management and make the measurement of leadership quality more precise using suitable instruments, indicators and ratios. The process is set to result in a consistent yet flexible management system and produce a forward-looking management culture. The measures taken are also linked to the Lean Transformation process (see page 5), which is aimed at enhancing workflows and processes in all Group units.

Transparent remuneration system

In response to the financial market crisis, the G20 nations have agreed to create a joint framework for common remuneration regulations in the financial services sector, in order to put the remuneration of employees in the financial sector on a more sustainable footing and prevent misguided incentives. As part of the implementation of these provisions, various regulatory campaigns were launched, some of which have now been implemented. They also affect the companies within the DekaBank Group. The new regulatory requirements regarding the remuneration systems of financial institutions – first specified in a circular from BaFin in December 2009 – are included in the new Remuneration Ordinance for Institutions, which came into force in October 2010.

We started revising our remuneration system in the reporting year. In addition to responding to the various regulatory requirements, the key objective is to develop the most uniform remuneration system possible for all companies within the DekaBank Group, so that implementation of the adjusted system can also be recommended to subsidiaries. The new system is also flexible with regard to future adjustments and facilitates success and performance-based remuneration in line with market conditions.

The Remuneration Management Committee is responsible for revising the remuneration system. This committee was already set up in February 2010 as the remuneration committee for the entire Group. Its remit is to develop the basis for a sustainable and practicable remuneration system, continuously monitor its suitability and submit proposals for improvements to the Board of Management as required. All of the indicators and ratios used to measure the Group's performance have been and will continue to be reviewed. Since financial year 2009, we have been providing annual information regarding the remuneration structure on DekaBank's website. The 2010 remuneration report for 2009 is already available there.

Projects

In financial year 2010, various major projects were launched throughout the Group, such as the Lean Transformation project, in which the Corporate Centre Human Resources was involved.

As part of the Lean Transformation project (see page 5), the HR unit essentially supported the recruitment of "lean navigators" and will also be responsible for their further development in the DekaBank Group. In addition, supporting the organisational units during the Lean Transformation phase was a key task of the Corporate Centre Human Resources.

Life stage-based HR policy

DekaBank meets the challenges of the demographic change by implementing the concept of a life stage-based human resources policy, which covers all phases, from career choice to retirement from professional life. Our policy has a role model function within the *Sparkassen-Finanzgruppe*, and the DSGV based its Staff 2020 project on this policy.

In the reporting year, a particular focus was on occupational health management. A specific evaluation project affirmed the sustained positive impact that sport has on the health of employees. The training programmes carried out at the Deka Health Centre, which follow sports sciencebased instructions, had the most significant effect on the health data collected.

An important milestone in promoting mental health was the introduction of the Employee Assistance Programme (EAP).

As part of this programme, all employees and any family members in their households can consult doctors, psychologists and other counsellors from an independent counselling service around the clock if they find themselves in a difficult situation in their professional or private life. Both the contact with the service and any advice given are treated in the strictest confidence. To support employees who are unable to work for a longer period of time or are repeatedly incapacitated, we have revised our company integration management. Our aim is to identify overload and stress at an early stage, preventing long sickness-related absences to the greatest extent possible. In a voluntary meeting with the affected employee, measures for enabling him or her to return to work are discussed.

In November 2010, DekaBank's occupational health management system received recognition at the Corporate Health Awards for the second time. After receiving the *Prädikat-Siegel* distinction in 2009, we were awarded the *Excellenz-Siegel* in 2010 for continuous improvements. This put us in second place nationwide in the finance/insurance company category.

Equal opportunities and family-friendly policy

DekaBank is committed to equal career opportunities for men and women and continually enhances the general conditions which enable employees to further improve their work-life balance. Via a cooperation partner, DekaBank makes crèche and daycare spaces available to employees at its location in Frankfurt/Main. Furthermore, employees throughout Germany benefit from an emergency childcare service when their regular childcare arrangements are not available. Advisory and agency services related to childcare supplement this offering. The expansion of the eldercare services financed by DekaBank is also aimed at promoting the work-life balance. These counselling services are available to employees who are responsible for family members who require care. In recognition of this commitment, DekaBank has repeatedly been awarded the *"audit berufundfamilie"* certificate.

One of the objectives of the equal opportunities plan, which has been in force since 2008, is to significantly increase the proportion of women in management positions. At the end of 2010, this proportion was 14.1% (previous year: 16.0%). Initial measures to counter this downward trend were already taken in the reporting year. Numerous information events and seminars on "Success management for women" were offered to interested female employees in the Group. A new Equal Opportunities Officer was elected in financial year 2010.

Professional training and continuing education for employees

In 2010, a total of 20 trainees successfully completed their training in the DekaBank Group.

Along with investment fund sales staff, DekaBank trains young employees to become real estate specialists, earn their Bachelors of Science (in applied information technology), IT specialists (application development), and provides office communications qualifications. In addition, we offer employees the opportunity to study for bachelor degrees alongside their job and support employees who are studying to earn a degree in investment management (*Investmentfachwirt/Investmentfachwirtin*) at the Frankfurt School of Finance & Management. We also meet our responsibility towards young people prior to training and studying. For example, we gave pupils advice and tips on applying for their first jobs and provided presentation skills training as part of the Maltese Social Day, a charity event.

Post balance sheet events

As at 1 January 2011, DekaBank Deutsche Girozentrale Luxembourg S.A. took over the retail business of LBBW Luxemburg S.A. after DekaBank was awarded the contract following the bidding process. Also with effect from 1 January 2011, our subsidiary in Luxembourg acquired WestLB International S.A. By acquiring the company, DekaBank is ensuring that customers will continue to have access to the existing range of products and services. In addition, they will be able to speak to the advisers they are already familiar with.

No other major developments of particular significance occurred after the 2010 balance sheet date.

Forecast report

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

Overall bank strategy

DekaBank will pursue its current strategy in financial years 2011 and 2012 at both the Group level and at the level of its business divisions (see pages 23 to 26) and add significant value to the *Sparkassen-Finanzverbund* on the basis of the close integration of Asset Management and supporting capital market business.

The following aspects play a central role across all business divisions:

- A differentiated customer approach in Asset Management and the development of customised solutions for investment and provisioning for the relevant target groups. The new approaches developed through the cooperation of the business divisions and Sales, such as the Deka-Vermögenskonzept, represent a new quality level for managing end customer securities accounts in line with individual investment objectives and risk profiles.

- Promoting institutional business by expanding the range of products and advisory services for investments by the savings banks for their own account and to meet the requirements of other institutional customers in Germany and abroad – the aim here is also to provide the best possible support to customers with regard to implementing Basel III.

- Further development of the product portfolio in Asset Management – on the one hand by appropriately streamlining the range of funds and on the other, by launching innovative products in the market which respond to the high level of market demand for multi asset solutions and non-linear structures.

- The customer-oriented alignment of our banking platform and making it sustainable for the future by investing in a high-performance IT infrastructure as well as increasing efficiency, quality and flexibility at all levels throughout the Bank.

Forward-looking statements

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

Anticipated external conditions

Expected macro-economic trends

Even three years after the financial market crisis started, its impact continues to affect the economy, and the path to expansion in terms of potential growth is proving longer and more arduous than after normal phases of economic weakness. However, a massive crisis of confidence among entrepreneurs and consumers is unlikely. According to our assessment, the upturn will continue over the next two years and the global economy is expected to grow by 4.2% in both 2011 and 2012. Since production capacities are still not being fully utilised in 2011, especially in the western industrialised countries, it is unlikely that monetary policy will hinder the upturn. However, many countries, and not only in Europe, face considerable structural changes and a consolidation of national finances. For the European Union, the main question in the current year will be how to deal in the future with the mountain of debt that some member states have. Since the Stability and Growth Pact alone will not be sufficient, the planned insolvency procedure in 2011 represents the most important European reform project.

In our view, major developments in 2011 will include the continually widening gap within the global economy, which is splitting into two different camps. Many of the emerging markets and Asian countries, as well as Australia, Canada and some European countries including Germany, Finland and the Netherlands, will exploit the low interest rates environment, gradually increasing economic growth worldwide, and return to pre-crisis levels or possibly even exceed them. In countries with structural difficulties, however, growth rates will be considerably lower than prior to the financial market crisis. This second group includes peripheral eurozone countries, such as Greece and Portugal, which need to reduce their budget deficits to ensure future access to capital market finance. However, there is a risk that this might drag these countries back into recession.

In 2011, we expect China to make the strongest contribution to growth of all the national economies, with 9.5%. China is therefore set to account for a third of global economic growth. Although the upswing is underway in the USA, it is not yet self-sustaining. While large international companies are investing again and generating profits, the situation remains difficult for banks, in the property market and with regard to the budget, and growth is therefore forecast to remain at a comparatively low level. At least for the first three months of 2011, the economy will remain divided. For 2011 as a whole, we expect the GDP in the USA to grow by 3.3%.

We believe that the eurozone will see an intact upswing in 2011, although marked regional variations are to be expected. Economic growth will be more broadly based, with the processing and manufacturing industry joined by services providers in the current year. In addition, the revival in 2011 will be supported more strongly by private consumption than was already the case in 2010.

Germany, whose economy accelerated considerably in the reporting year, is again set to emerge as Europe's economic driving force in 2011. This is partly due to the country's significant strength in exports and partly to private consumption, which is now gathering pace. Here, we expect growth of 1.5% during 2011. Nevertheless, the rate of economic growth is likely to decelerate slightly, so we therefore assume that Germany's GDP will increase by 2.5% in 2011. From 2012 onwards, we believe that substantially stronger domestic demand will make an even greater positive impact on economic growth.

Unemployment is likely to decrease further in Germany in 2011, with fewer than three million people expected to be unemployed on average. The unemployment rate is estimated at 7.1%, which would be the lowest rate to date since the German reunification. Both the short-term economic conditions and long-term demographic development also indicate that the era of high unemployment rates in Germany is likely to be a thing of the past for the time being.

Future economic developments will largely depend on whether the European debt crisis will again become more critical in 2011, as this could result in further problems in the financial markets and a crisis of confidence amongst investors. The consequences would be restricted lending by financial institutions to the rest of the economy and the resultant lack of investment opportunities for companies. However, we expect the European debt crisis to be resolved at the political level in the course of the year. In our view, structural weaknesses in the political foundation of the euro need to be eliminated in order to contain debt in the eurozone more effectively in the future than is possible with a Stability and Growth Pact.

With generally underutilised production capacities and deflationary pressure in some regions within the European Monetary Union, inflation does not present a significant threat in Europe or the USA in the medium term. We expect the inflation rate in the eurozone to be 1.5% in the current year. Consequently, the Fed and ECB will have enough time to gradually retreat from their quantitative monetary policy before the first interest rate hikes will become necessary. We assume that interest rate adjustments will not be made in 2011 and do not expect to see initial interest rate increases until mid 2012, first by the ECB and subsequently by the Fed.

Expected trends in the capital markets

In our opinion, the capital markets will remain jittery in 2011. The results of the comprehensive bank stress tests in Europe, published in July 2010, reassured investors and contributed to improving market conditions in the long term. However, sustained stabilisation of the financial markets will essentially depend on whether a solution to the debt crisis in the eurozone is found in the current year and whether the budget consolidation started in Europe will take hold. These are the prerequisites for restoring the market players' confidence in the capital markets. Initially, investors will therefore have to be prepared that capital markets will remain volatile.

Spreads on government bonds from the eurozone countries concerned narrowed again slightly at the end of the reporting year. However, it is to be expected that some capital market players will test the rescue package once more in the coming months. Since resolving the national debt crisis is likely to necessitate a high level of consolidation of debt in the eurozone, we expect that risk premiums will not only widen in the affected eurozone countries in 2011, but also in the core eurozone countries. This may also put pressure on yields in Germany. Conversely, emerging market spreads will decrease slightly again. We also expect a further decrease in risk premiums on corporate bonds.

The development of yields on US bonds and Treasuries still depends heavily on the investors' need for security. Initially, the short end of the bond curve is set to benefit from the expectation that banks will continue to have a very high level of surplus liquidity, with a steep rise in the yield curve. Interest on bonds and Treasuries will therefore increase, particularly in the short term. By year-end, the economy and labour market should have stabilised to the extent that an end to the period of extremely low central bank rates should be up for discussion. We therefore anticipate yields on US Treasuries to rise again in the second half of the year, especially at the short end of the yield curve.

As long as the global economic upturn proceeds as expected in 2011, share prices will also increase further in the current year. However, greater fluctuations occurred during the reporting year and, in our opinion, this trend will continue in 2011. For 2011, we expect a stock market yield of around 5%.

Expected trends in property markets

The impact of the financial market crisis on the property markets is still evident. Volatile locations are likely to perform better in 2011, since prices in these markets fell more sharply in 2009. Financing conditions for property market investors will remain very favourable in 2011. However, positive market expectations overall will be accompanied by significant risks. These include, in particular, the European debt crisis.

Due to split economic developments, the gap will also continue to widen in the European commercial property markets in the medium term. Countries with weaker growth rates will experience lower demand for space in the future and record weak nominal growth in rents, whereas countries with a robust structure will see an opposite trend. In Europe, we expect accelerated increases in rents for the office markets in London and Paris in 2011, with a decrease in rents on a larger scale only probable in Barcelona and Madrid. For Germany, we assume an average increase in office rents of around 2% in the current year. Although this is below the average for the eurozone countries, the downturn in rents and rise in yields was far less substantial in locations in Germany during the financial crisis than it was in the major cities of neighbouring countries. Volatility in total income in Germany is therefore also significantly lower, which underlines the market's reputation as an attractive and stable investment location.

In the European and US investment markets, the evident polarisation will continue between core properties in prime locations and secondary properties in peripheral locations. The high level of demand for core properties coupled with a limited supply means that initial yields in most European markets are likely to decrease further in 2011. We believe that yields will be at a low between 2011 and 2012, depending on the market. This should be followed by slight increases. In terms of total income, the City of London and Warsaw will lead the way in Europe until 2015. In addition, Madrid, Paris, Brussels, Luxembourg, Barcelona and Prague are attractive locations from an income standpoint. In the USA, high-tech oriented locations which are not particularly dependent on the housing market and where the refinancing pressure is below average are likely to benefit. We expect that San Francisco and Boston will record the highest total income, whereas Downtown New York is likely to deliver the poorest performance.

In Asia, we forecast slightly negative total income for Tokyo and Singapore. In contrast, the Latin American markets of Santiago de Chile and Mexico City as well as Perth in Australia are expected to generate income in excess of 10%. And in our opinion, Australia's primary markets, Melbourne and Sydney, also promise high income levels in the current year.

The recession in Europe's labour markets had a major impact on retail markets. However, for 2011, we only anticipate a marked downturn in rents in Ireland and Spain. The Scandinavian countries as well as France and Germany are likely to offer the best prospects. Here, we expect to see a rise in rents for prime city locations starting in 2011. With regard to yields, further decreases are assumed, although they should be of a lesser extent.

The demand for logistics space recovered significantly in 2010 as a result of the global economic upturn and increase in industrial production. Export-oriented countries such as Germany and the Netherlands benefited in particular from these developments. For 2011, we do not expect any noteworthy rise in rents. Only locations where bottlenecks had already arisen before 2011 due to low vacancy rates are likely to see increases. Yield compression should weaken further in 2011.

Expected business development and profit performance

Based on economic conditions, only relatively limited external impetus, if any, is to be expected for DekaBank's business development and profit performance. The ongoing growth and stability risks in the wake of the financial and economic crisis combined with continuing low interest rate and yield levels in the money and bond markets for the foreseeable future mean that from today's perspective, we cannot expect to repeat the strong result for 2010 in either of the next two years. With regard to net commission income, the extent to which we will benefit from a positive market trend remains to be seen. In terms of net interest income, the volume effect resulting from the reduction of the portfolio in non-core business may partly curb growth.

At the same time, administrative expenses will be higher than in the previous year following the implementation of the IT mission, expenses related to the acquisition of the business activities of LBBW and WestLB in Luxembourg and the costs associated with regulatory measures.

Nevertheless, our business model will provide the opportunity to achieve a strong positive economic result again in 2011 and contribute significant added value for our alliance partners as well. On the basis of our current medium-term planning, we expect growth in profit contributions in financial years 2012 and 2013 as compared with 2011. Net commission income will continue to play a decisive role in the future. It is not possible to make a reliable forecast with regard to the trend in risk provisions, since the situation is not yet stable. The income statement may also be affected once again by unforeseeable spread developments in the bond markets.

In connection with the aid procedure under EU Community law applied to WestLB AG, the Federal Republic of Germany has proposed several possible solutions to the European Commission. These include a concept for splitting and the proper winding up of WestLB. As part of this concept, selected business activities of WestLB that are relevant to the savings banks would be transferred to a new alliance bank to be established. Parts of this alliance bank would then be sold on, transferred to other units or wound up over a longer period of time. The savings banks and *Landesbanken* in Germany have declared that they are willing in principle to make a contribution towards establishing the alliance bank as part of the overall concept and become the joint owners of the alliance bank together with the savings banks associations in North Rhine-Westphalia. The precise ownership structure of the alliance bank was still being discussed at the time this Group management report was prepared. According to the current status, the savings banks and *Landesbanken* are considering an involvement in the alliance bank on the basis of their protection schemes or by granting guarantees to the alliance bank. As a member of the guarantee fund of the *Landesbanken* and *Girozentralen*, DekaBank would be sharing in the costs of such measures.

AMK business division

The AMK business division will strengthen its profile for the various customer groups and its market position in both retail and institutional business. The range of mutual securities funds is to be expanded, including through securityoriented multi asset products and guaranteed funds. We are confident that investors will increasingly create yield opportunities by using several asset classes while at the same time aiming to actively minimise loss risks. In addition, incentives will need to be offered for long-term securities-based saving. Selected closures and tax-neutral mergers of funds and fund unit classes will further optimise the product assortment. Despite the distinct risk aversion amongst investors, AMK nevertheless expects moderate growth in assets under management.

Tailored to the requirements of affluent customers, the Deka-Vermögenskonzept (see page 6) is to be established as the key growth driver of fund-linked asset management. The market launch of this individually configurable investment concept in the first quarter of 2011 was flanked by wide-ranging sales campaigns. System-generated advisory tips will support savings banks advisers in the future to bring in line the need for security and yield orientation of investors. In institutional business, AMK intends, among other things, to expand the mandate-based business in multi asset fund mandates and also intensify those activities in selected regions. Furthermore, the range of services is to be systematically supplemented with appropriate solutions for adjustments that are driven by regulatory changes. In this respect, AMK works in close cooperation with the other business divisions.

Starting in 2011, the income generated by AMK is expected to be relatively steady in the subsequent years. Expenses are set to increase as a result of the acquisitions in Luxembourg and the implementation of the IT mission. Nevertheless, the business division will once again make a significant contribution to the DekaBank Group’s economic result in 2011 and 2012.

The level of risk in the business division will rise due to the additional business activities in Luxembourg. Risk related to future developments can occur in particular if the capital market trend is weaker than expected, as this may result in funds outflows and a downturn in yields across the sector. Opportunities arise, for example, from the sharpened profile vis-à-vis customers.

AMI business division

The AMI business division will continue to adhere to liquidity and yield-oriented fund sales management in financial year 2011. Sales to customers of units in the open-ended mutual property funds for private customers should reach approximately the previous year's level on the basis of agreed-on sales targets. Nevertheless, net sales will be down in line with expectations. This is partly due to the fact that, similar to previous years, we will direct any institutional investors with existing investments towards products which are more appropriate for their requirements. It is still uncertain to what extent the tense situation in the sector – especially the winding up of individual funds and the final version of the Investment Act – will have an impact on demand. Continuing low interest rates on liquidity will result in further pressure. However, if the market recovers, this should stabilise or slightly increase the value of properties. In view of the fact that some of the influencing factors are opposed, it is particularly difficult to provide a market forecast for open-ended property funds in 2011.

Institutional business is set to be expanded, including via our new investment products such as WestInvest Target-Select and DeLI. Growth in special property funds will require sufficiently high transaction volumes with the appropriate quality. We will be focusing on this aspect in 2011. For Real Estate Lending, we expect a development similar to that in the year ended. We will pursue the already successful strategic direction of this sub-division.

AMI forecasts that the economic result before unforeseeable factors will continually rise slightly in subsequent financial years. Risks arise, amongst others, from the uncertainty relating to the development of values and rents in the various regions as well as specific pressures in the sector, which may significantly affect acceptance and sales conditions. In contrast, there is a chance that in the long term, investor confidence will not only return, but also be considerably strengthened as a result of new regulations pertaining to open-ended mutual property funds, and the focus of investment decisions will return to fundamental market developments. In Real Estate Lending, unscheduled risks with an impact on income are most likely to arise in connection with the follow-on financing of some loans granted in 2006 and 2007.

C&M business division

With its capital market and financing activities, which are primarily geared to funds and savings banks, C&M is favourably positioned in terms of meeting the future challenges of the financial markets and the more stringent regulatory conditions.

We expect higher demand for services related to share, bond and derivatives brokerage in financial year 2011 as a result of the expansion of structured multi asset solutions and our strengthened role as custodian bank for capital investment companies. The market trend may also be a contributing factor here. Following the recovery in the real economy, we expect the ratings of bond issuers to improve and as a consequence, anticipate a revival of bond market activities. At the same time, the liquidity requirement of banks and non-banks, which is set to rise in the long term, is likely to result in an increase in primary market activities.

In the segment of short term products, an upward trend in demand from savings banks and other counterparties is emerging as a result of the more restrictive liquidity policy of the ECB that have been announced and new regulatory requirements. This could be met in part by stepping up repo/lending activities while strictly limiting counterparty risks, especially since the funds are also likely to show a growing interest in securities lending in the wake of market developments.

On the basis of the enhanced range of investments and intensified product sales, we intend to expand our ETF business. We have primarily identified potential with respect to investments by the savings banks for own account and non-Group institutional counterparties, such as asset management providers. The medium to long-term target is to increase the total volume to €10bn.

In the lending business, in addition to public sector finance, C&M will continue in the future to focus on tailor-made fund solutions for participating in attractive credit assets. Building on the acceptance of infrastructure funds, the DeLI concept will also be applied to other credit asset classes. Depending on the success achieved with external placements, the volume of new commitments may cautiously be increased once again to utilise margin potential and supply the various credit funds with the required volume of assets.

On the basis of steady income with a long-term upward trend, the business division plans to make a significant contribution to the economic result of DekaBank in the future while at the same time limiting counterparty and market risks. This development is supported by the long-term investment of liquidity, which promises steady profit contributions up to 2015. For financial year 2011, a moderate increase in administrative expenses is expected, based on the additional costs arising in connection with implementing the IT mission and strengthening the C&M Sales units, which work in close cooperation with AMK's Institutional Sales. In addition, C&M has initiated further steps to optimise new product processes with the aim of ensuring sales success.

In terms of future developments, risks for C&M arise, in particular, from potential unfavourable changes in the capital market environment, which remains fragile. For example, if the national debt crises in the eurozone broaden, previously unaffected segments of the bond market may face high risk premium spreads, which would result in negative valuation effects and a higher level of risk. In particular, opportunities will emerge if the money and capital markets normalise as a result of the ECB adopting a less expansionary interest rate and liquidity policy. The liquidity and funding requirement will increase in the coming years, as the banking sector prepares to implement the Basel III regulations.

Non-core business

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

Risk report

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

Risk-oriented overall bank management

Risk policy and strategy

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

The Bank uses a systematic strategic process to regularly review its business strategy, management and structure, as well as the divisional and sales strategies, and ensure that they are consistent, complete, sustainable and up-to-date. The strategies are transferred to a target system as part of DekaBank's management system. On the basis of this target system, DekaBank implements an appropriate risk/reward ratio in the long term with the aim of achieving a sustained increase in corporate value.

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

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

Organisation of risk management and control

Risk management

DekaBank perceives risk management as the active management of its risk positions (Fig. 7). The full Board of Management of the DekaBank Group plays a central role here: the Board is responsible for establishing, further developing and monitoring the efficiency of the risk management system. The full Board of Management approves the permissible overall risk at Group level and stipulates what proportion of the reserved risk capital should be attributed to the respective risk types on the one hand and the business divisions on the other (top down view). In addition, the business divisions determine their budgeted capital requirement (bottom up view). Combining the two viewpoints ensures the most efficient allocation of the risk capital to the business divisions on an annual basis.

DekaBank has specified limits for all material risks and has implemented consistent risk management.

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

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

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

Risk control

In organisational terms, Risk Control is part of the Corporate Centre Group Risk. This unit is independent of the business divisions and is tasked in particular with developing a standard and self-contained system that quantifies and monitors all risks associated with the Group's business activities. The risk measurement procedures are continually updated in line with business and regulatory requirements. Risk Control also monitors compliance with the limits approved by the authorised persons. Limit overruns are immediately reported to the full Board of Management.

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

Risk reporting

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

Internal Audit

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

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

Organisational structure of risk management in the DekaBank Group *(Fig. 7)*

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

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

New regulatory provisions

The German Federal Financial Supervisory Authority (BaFin) further developed the MaRisk once again in the past year, taking into account the causes of the financial market crisis. The amendment to the act came into force on 15 December 2010 and must immediately be applied. Accordingly, financial institutions need to, for example, revise their stress tests and make them comprehensive, so that they also include risk concentration and diversification effects between individual types of risks and identify potential additional causes of risks that might jeopardise the Bank's existence. Taking risk concentration into account, tolerance levels have to be specified for all material risks and the impact across the risk types of such concentration must also be analysed.

A further amendment relates to the future-oriented structure of the risk-bearing capacity analysis. This analysis must now also take into account any planned future adjustment in business activities and strategic targets as well as expected changes in the market environment. In addition, a procedure must be implemented for planning, adjusting, implementing and evaluating the overall bank strategy and the individual policies derived from it, which facilitates an accurate comparison of the current status with regard to goals and targets versus the level of implementation achieved.

The new MaRisk also comprise specific requirements for the liquidity management of capital market-oriented banks. They must have sufficient additional funds in place and highly liquid assets that are eligible as security for central bank borrowing, enabling them to bridge a short-term refinancing requirement in a stress scenario for a minimum of one week. For a period of at least one month, further components of the liquidity reserve may be used, provided that they can be turned into cash without significant loss in value and regulatory requirements are complied with. The new requirements have been introduced in the context of the liquidity and refinancing requirements under Basel III (see page 15).

DekaBank already implemented key elements of the new MaRisk, such as the strategic planning process, some time ago. We have comprehensively evaluated the requirements regarding liquidity management and found that, given DekaBank's liquidity position, no funding risks are considered to be material. We believe that the advanced liquidity management mechanisms already being used (see page 52) remain acceptable and sustainable against the backdrop of the new MaRisk.

The same applies to the structure of macro-economic stress tests. We already started further developing our set of macro scenarios in 2009 and then derived various scenarios in 2010, defined their parameters and quantified their impact on the basis of new calculation modules. The expanded stress test scenarios now enable us to even better assess the sensitivity of planning assumptions from a scenario perspective. As part of the risk-bearing capacity analysis, the stress tests now provide more comprehensive alternative risk calculations which supplement the value-at-risk approach (see page 40). Accordingly, they will be included in our external reporting for the first time in the Annual Report 2011.

Overall risk position of DekaBank

Risk types and definitions

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

Market price risk

Market price risk describes the potential financial loss caused by future market parameter fluctuations. Market price risk comprises interest rate risk (including credit spread risk), currency risk and share price risk.

In line with DekaBank's business strategy, transactions mainly relate to customer transactions (customer business) and to a small extent to the Bank's own portfolio (investment portfolio, liquidity reserve and trading portfolio). Overall, this should generate a sustained economic result for the Bank.

Both the strategic positions in the investment book and the more short-term positions in the trading book entail market price risks.

Credit risk

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

In principle, with regard to credit risk, DekaBank distinguishes between position risk and advance performance risk. The position risk comprises the borrower and issuer risk, which is assessed in particular by the creditworthiness of the respective contracting partner, as well as replacement risk and open positions. The advance performance risk represents the threat that a business partner will not pay the contractually agreed-upon consideration after advance performance rendered by DekaBank.

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

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

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

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

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

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

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

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

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

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

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

Risk measurement concepts
Risk-bearing capacity
DekaBank determines its Group risk across all significant risk types that have an effect on income. Group risk is measured as the amount of capital that with a high level of probability will suffice to cover all losses from the main high risk positions within a year at any time.

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

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

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

Stress tests

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

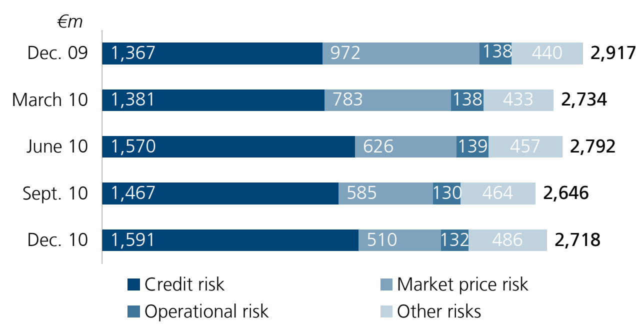
Stress tests are also used in the calculation of risk-bearing capacity. The additional risk arising in the stress scenario is combined with Group risk and compared to the overall risk-bearing capacity.

The macro-economic stress tests newly defined in the year under review, which have been quantified since January 2011, relate to historical scenarios (for example, the financial market crisis and terrorism risks), to hypothetical stress scenarios – such as the significant widening of spread curves in individual eurozone countries after debt restructuring in a highly indebted country – and the collapse of a bank which is essential to the system.

Overall risk position in financial year 2010

Group risk for DekaBank decreased considerably in the past financial year. The value-at-risk with a confidence level of 99.9% and a time horizon of one year amounted to €2,718m at year-end 2010 compared with €2,917m one year earlier (Fig. 8 and Fig. 9). This was due to the lower market price risk, which alongside the reduction in risk positions reflected reduced spread volatility and correlations. Conversely, credit risk rose moderately as a result of unfavourable developments in ratings and in the public sector finance segment.

Change in Group risk over the course of the year *(Fig. 8)*



Our risk models therefore adequately and promptly reflect current market developments in the wake of the financial market crisis – not least because they take comprehensive account of migration risks. The weakening of the spread crisis is illustrated, as are the subsequent crisis in the real economy and the downgrading of company ratings, which started with some delay, and the European national debt crisis. It is to be expected that the economic recovery will eventually generate better ratings again and an easing in terms of credit risk.

Change in Group risk over the course of the year – other risks *(Fig. 9)*

The worsening of the national debt crisis in 2010 overall only had a negligible impact on DekaBank's risk position. Only around 4% of the Bank's gross loan volume was attributable to the PIIGS countries, i.e. Portugal, Italy, Ireland, Greece and Spain. No losses were recorded in the reporting year as a result of issuer default in these countries.

€2,057m of the Group risk (end of 2009: €2,093m) was attributed to core business. The lower figure in non-core business, which was down from €824m in the previous year to €662m, reflects the lower spread volatility and the reduction in the portfolio of capital market credit products while safeguarding assets at the same time.

The primary risk cover potential increased slightly to €4,431m (end of 2009: €3,748m), due to the higher net income contribution for the year and higher reserve from retained earnings. The utilisation rate relating to primary cover potential decreased from 77.8% at the end of 2009 to 61.3% as at the 2010 reporting date. The risk-bearing capacity was guaranteed at all times during the reporting period.

Even under stress conditions, the risk position improved on the previous year. In the stress scenario, the calculated Group risk totalled €3,228m (end of 2009: €3,713m). This yields a utilisation rate of overall risk-bearing capacity of 55.3% (end of 2009: 72.1%). The overall risk-bearing capacity of €5,840m (end of 2009: €5,152m) comprises the secondary risk cover potential of €1,409m in addition to the primary risk cover potential. Excluding the stress scenario, overall risk-bearing capacity was only utilised to 46.5% (end 2009: 56.6%).

Market price risks

Risk management and monitoring

DekaBank's market price risk strategy stipulates the parameters for the Bank's trading transactions and all other transactions entailing market price risk. It specifies the policy for the markets in which we operate, regulates responsibilities and the nature and extent of the transactions carried out and also provides specifications for risk management, control and reporting. Furthermore, the trading strategy forms an integral part of the market price risk strategy.

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

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

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

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

Quantifying market price risks

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

The value-at-risk ratios are determined daily, using a sensitivity-based Monte Carlo simulation. The input parameters for this risk model are the sensitivity variables delta, gamma and vega ("the Greeks"). These first and second-ranking sensitivities express the price sensitivity of financial instruments on the basis of changes and the implicit volatility of the underlying basic value and facilitate the assessment of the overall risk of linear and non-linear products. In addition to quantifying risk, they are also used as management variables, for example to limit risk positions and estimate the risk of new products.

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

Value-at-risk (VaR)

While the VaR in the risk-bearing capacity analysis is calculated with a confidence level of 99.9% and a holding period of one year, to determine utilisation of the operating limits, the VaR is determined for a holding period of ten days (for trading one day) and a confidence level of 95%. The operating VaR therefore corresponds with a probability of 95% to the maximum loss on a position held over a period of one or ten trading days.

The Monte Carlo simulation is comprehensively used across all portfolios, including credit spread-sensitive portfolios in particular. The calculation is based on volatilities and correlations determined using historic changes in market parameters. We take into account market correlations within the interest rates and credit spreads and currencies and equities risk categories as well as correlations between the risk categories.

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

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

Sensitivities

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

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

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

Scenario analysis

Alongside the analysis of risks as part of the value-at-risk procedure, scenario analyses are also important for managing and monitoring risk. In terms of scenario analyses, we distinguish between sensitivity analyses and stress scenarios.

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

Stress scenarios are used to analyse the impact of historic and hypothetical scenarios which affect several risk factors at the same time. To analyse interest rate risk positions, we regularly perform currency-specific and segment-specific stress tests derived from historic movements in interest rates.

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

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

Backtesting of VaR ratios

In addition to detailed validation of the individual assumptions used in the model, we regularly conduct backtesting for various portfolio levels in order to test the validity of our VaR forecast. In this process, the daily results, which are theoretically achieved assuming unchanged positions on the basis of the market developments observed on the following day, are compared to the forecast value-at-risk figures for the previous day. We also use the backtesting results to further develop the risk model. Market Risk Control reports the results to the ALMC on a quarterly basis.

Reporting of market price risks

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

Current risk situation

Market price risks in the Group arise in the form of interest rate risks (credit spread risks and general interest rate risks), share price risks and currency risks (Fig. 10). The overall market price risk (holding period of 10 days and confidence level of 95%) decreased in the course of 2010 from €96.0m to €44.8m.

The considerably lower interest rate risk, which at €43.3m (end of 2009: €96.7m) continues to be the most important market price risk for DekaBank by far, was the decisive factor. The credit spread risks comprised in the interest rate risk were down from €96.9m to €43.2m. In the investment book (Treasury including capital market credit products), the credit spread risk amounted to €39.2m (end of 2009: €89.6m) whereas it totalled €6.7m (end of 2009: €16.7m) in the trading book. The decrease was essentially due to the reduction of positions in capital market credit products in conjunction with lower market volatility. The reduced

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

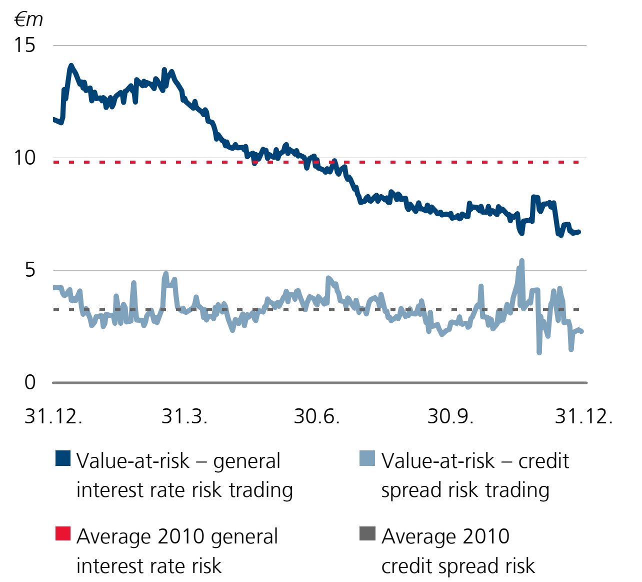
€m Category	Core business	Non-core business	31.12.2010 Group	Core business	Non-core business	31.12.2009 Group	Change in risk
Interest rate risk	31.2	25.5	43.3	54.3	66.1	96.7	-55.3%
Interest rate - general	2.1	2.1	2.4	4.2	2.0	4.2	-44.1%
Spread	30.8	25.7	43.2	54.2	66.2	96.9	-55.4%
of which in capital market credit business	14.1	25.1	28.0	26.4	65.6	76.2	-63.2%
Share price risk	8.9		8.9	9.0		9.0	-1.9%
Currency risk	2.0	2.5	4.2	2.0	4.9	6.6	-36.9%
Total risk	**32.9**	**26.0**	**44.8**	**54.1**	**66.0**	**96.0**	**-53.3%**

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

nominal volume is attributable to repayments as well as final maturities and selling. Details are provided in the separate section on capital market credit products on pages 55 to 57.

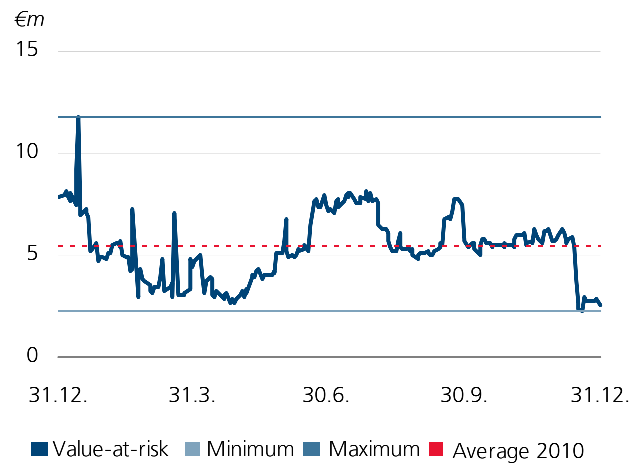
The general interest rate risk totalled €2.4m and largely resulted from euro-denominated positions as in the previous year (€4.2m). In particular, the decrease reflects the reduction of positions in capital market credit products and the closing out of open interest rate risk positions. The general interest rate risk reported by DekaBank in the trading book amounted to €2.2m as at the 2010 reporting date (end of 2009: €3.9m), while it stood at €1.9m (previous year: €1.7m) in the investment book (Fig. 11).

Value-at-risk – General interest rate risk and credit spread risk in trading over the course of the year 2010 *(Fig. 11)*



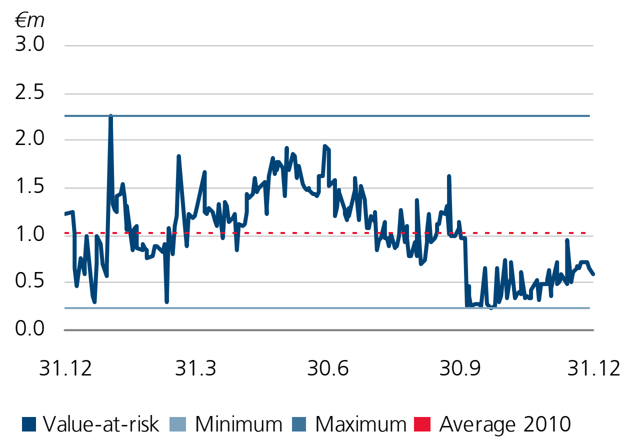
At €8.9m, the share price risk as at the reporting date of 31 December 2010 was at a comparable level with the 2009 year-end figure (€9.0m). Overall, share price risks in the trading book totalled €2.6m (end of 2009: €7.8m) and €8.3m (end of 2009: €4.4m) in the investment book (Fig. 12).

Value-at-risk – Share price risk in trading over the course of the year 2010 *(Fig. 12)*



The currency risk decreased significantly, to €4.2m, as compared with the year-end figure for the previous year (€6.6m). This was primarily attributable to the reduction of open currency positions in capital market credit business. The currency positions were mainly held in US dollars and pounds sterling. As at the reporting date of 31 December 2010, currency risks in the investment book amounted to €3.7m (previous year: €5.8m) and €0.6m (previous year: €1.2m) in the trading book (Fig. 13).

Value-at-risk – Currency risk in trading over the course of the year 2010 *(Fig. 13)*



Credit risks

Risk management and monitoring

Organisation of credit risk management

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

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

Other back office functions are assumed by the Credit Risk Control and Risk Models units of the Corporate Centre Group Risk. The Credit Risk Control unit monitors credit risks at the borrower level and is responsible for risk reporting with regard to credit risks. Its remit also includes developing methodology and reviewing rating procedures. Acceptances and other decisions regarding the future development of the rating procedures are the responsibility of the Rating Committee (cf. the section on assessing creditworthiness). The Risk Models unit is responsible for monitoring credit risks at the portfolio level and for the development of methodology and quality assurance of procedures for quantifying credit risks, in particular on the basis of the credit risk model.

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

Management, monitoring and limiting of credit risks

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

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

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

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

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

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

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

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

Assessing creditworthiness

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

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

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

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

The responsibility for internal Bank acceptance or decisions regarding the further development of methodology and the updating of the rating systems lies with the Rating Committee, which is made up of representatives from the Corporate Centres Credit Risk Office and Group Risk. In addition, the Rating Committee is responsible for the fundamental specification of the rating processes. The firsttime introduction of new rating procedures requires the approval of the full Board of Management.

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

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

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

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

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

Quantifying credit risks

Limit monitoring

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

Issuer risks arising from bonds and guarantor positions relating to credit default swaps (CDS) in the trading book are monitored on the basis of an overall limit based on the holding period, unless relevant individual counterpartyrelated limits exist.

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

Default monitoring

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

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

In order to recognise provisions for loan losses in the balance sheet, the individual loan receivables are checked for impairment. If impairments are identified, specific valuation allowances in the corresponding amount are recognised.

For non-impaired receivables, the default risk and transfer risk are taken into account by recognising portfolio valuation allowances. Portfolio valuation allowances for country risks are always recognised as of an internal rating of 10 in accordance with the DSGV rating scale. For countries with better ratings, a valuation allowance can be recognised in individual cases. Portfolio valuation allowances for creditworthiness risks are recognised for impairments in the loan portfolio which have already occurred as at the reporting date but were not yet known. Provisions are created to take account of creditworthiness risks in off-balance sheet lending business.

Credit portfolio model

In addition to the structural analysis of the credit portfolio, credit risks are mapped using a portfolio model. This is aimed in particular at providing suitable risk ratios and risk premiums for portfolio and bank management, determining the capital required or the economic pressure on equity resulting from credit risks and integrating these in the riskbearing capacity analysis and quantifying concentration and diversification effects.

The portfolio model is based on a credit metrics approach. Along with the default risks in the narrower sense, the risks arising from a change in creditworthiness are also taken into consideration in the form of rating migrations. The probability allocation for credit risk induced changes in the value of the portfolio is generated using a Monte Carlo simulation. A key result of the portfolio model is that it determines a credit-value-at-risk (CVaR) with a confidence level of 99.9% and an assumed holding period of one year. The CVaR is currently determined each month on a Groupwide basis and incorporated in the processes and reports relevant to the management of credit risks. It is included in the risk-bearing capacity analysis, taking into account the provisions set up for loan losses.

Credit risk reporting

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

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

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

Current risk situation

As a result of the clearly defined focus of its lending business on asset management, DekaBank only takes on new exposures on a strictly selective basis. This approach is also reflected in the decrease in the gross loan volume to €142.6bn (end of 2009: €147.0bn). Of the total gross loan volume, more than 95% was attributable to core business (€136.0bn), especially to the Markets, Credits and Treasury sub-divisions (Fig. 14).

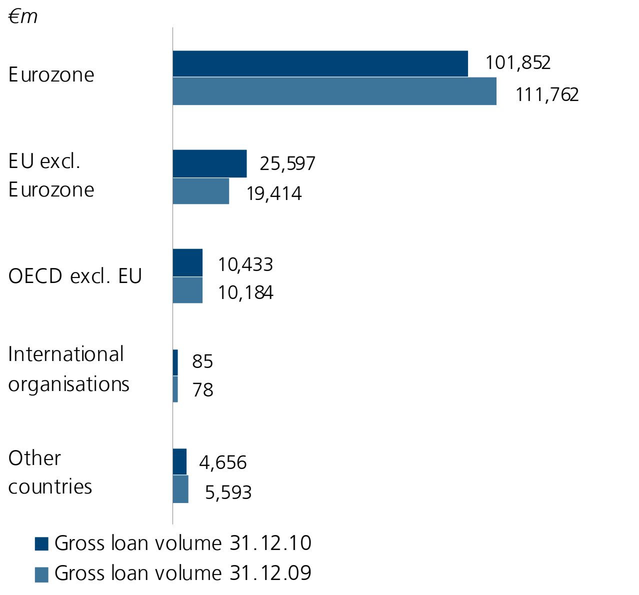
Gross loan volume *(Fig. 14)*

€m	31.12.2010	31.12.2009
Financial institutions	78,145	74,163
Funds (transactions and units)	16,902	14,330
Corporates	11,565	15,232
Public sector finance Germany	13,812	16,145
Utility & project finance	3,072	7,352
Transport & trade finance	6,318	7,429
Other	4,511	4,727
Property risk	8,297	7,652
Total	**142,623**	**147,030**

The weightings of the individual risk segments only shifted moderately in the reporting year. The gross loan volume ascribed to financial institutions, including the savings banks, rose by €4.0bn to €78.1bn, primarily as a result of higher repo/lending positions and money transactions of a greater volume in the Markets sub-division. In the corporates risk segment, however, bond portfolios were reduced and the gross loan volume was down by €3.7bn to €11.6bn. In national public sector finance, transport and trade finance as well as project finance in the broader sense, the gross loan volume also decreased, with maturing loan positions having the greatest impact on the whole. The share of loans extended to other financial institutions increased overall from 50.4% to 54.8%.

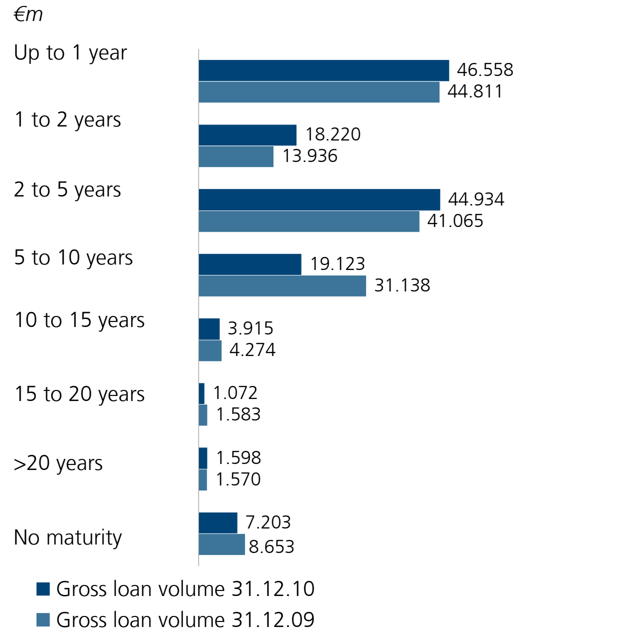
At €101.9bn (previous year: €111.8bn), the eurozone still accounted for the major share of the gross loan volume, although its share declined from 76.0% in the previous year to 71.4%. Almost three-quarters of the volume in the eurozone was granted to borrowers in Germany. The gross loan volume attributed to EU countries outside the eurozone climbed 31.9% to €25.6bn (end of 2009: €19.4bn), which represents a share of 17.9%. The reason for this rise is an expansion of exposures in the UK. Business with borrowers in OECD countries outside the EU also increased slightly; their share of the gross loan volume grew somewhat from 6.9% at year-end 2009 to the present figure of 7.3%. Countries with a rating between 6 and 15 on the DSGV master scale are monitored using a global country limit. The peripheral eurozone countries with downgraded credit ratings, the so called PIIGS countries (Portugal, Italy, Ireland, Greece and Spain), together accounted for a share of only 3.9%, or €5.6bn, of the DekaBank Group's gross loan volume (Fig. 15).

Gross loan volume by region *(Fig. 15)*



In view of our deliberate restraint in new business and the higher share of interbank loans, which are often shortterm, the average remaining maturity in the gross loan portfolio decreased further from 3.4 to 3.1 years. For 32.6% of the gross loan volume, the residual maturity of the gross loan volume was less than one year, with 4.6% of the gross loan volume featuring a remaining maturity of ten years or more (Fig. 16).

Gross loan volume by remaining maturity *(Fig. 16)*



As at the 2010 reporting date, €87.0bn, or 61.0%, of the gross loan volume was collateralised, which is €0.9bn more than one year earlier. The main reason for this is that practically all new business is collateralised. Consequently, the netting volume in reverse repos almost doubled in financial year 2010. We also collateralised a significantly higher share of the gross loan volume than in the previous year on the basis of offsetting agreements on financial futures as well as lending and round tripping. Conversely, the volume of the risk-minimising guarantor's liability decreased further, predominantly as a result of the number of expired claims which still featured the guarantor's liability. In addition, personal and impersonal securities were in place, with charges on property, sureties and guarantees as well as registered liens representing the major share. Furthermore, there were assignments and pledging on a small scale.

After deducting the various types of collateralisation, the remaining net loan volume amounted to €55.6bn. Consequently, this figure was also down on the previous year (€61.0bn). Loans to financial institutions accounted for the largest share of the net loan volume by far (59.1%). This was the only risk segment which recorded a noteworthy increase in terms of net volume. The net volume was down in almost all of the other risk segments, particularly as a result of loans maturing and in the Utility & Project Finance and Corporates segments, in part due to the early selling of bonds (Fig. 17).

Net loan volume *(Fig. 17)*

€m	31.12.2010	31.12.2009
Financial institutions	32,912	30,868
Funds (transactions and units)	7,694	7,770
Utility & project finance	3,020	7,297
Corporates	3,908	6,327
Property risk	3,348	3,638
Transport & trade finance	1,162	1,514
Other	3,600	3,539
Total	**55,644**	**60,953**

The concentration of the loan portfolio remained virtually on the same level as in the previous year. The ten biggest borrowers accounted for an almost unchanged share of 26.0% of the net loan volume as at the year-end (end of 2009: 26.1%). In financial year 2010, 10% of borrower units made up 79% (end of 2009: 78%) of the net loan volume.

As in the previous year, the average rating of the net loan volume was 4 on the DSGV master scale. The rating remained unchanged for 91.1% of the volume. With regard to the remaining 8.9%, however, negative rating migrations prevailed, with a downgrading by several notches in some cases. The average default probability of the portfolio therefore rose slightly by 5 basis points. At year-end 2010, 87.6% of the net volume (previous year: 88.7%) had a DSGV rating of 4 or better. Financial institutions once again achieved an above-average rating of A+ (Fig. 18).

The CVaR (confidence level 99.9%, risk horizon of one year) included in terms of risk-bearing capacity was up by 16% to €1.59bn (end of 2009: €1.37bn). Of this amount, 31.6% (previous year: 37.3%) was attributable to banks and other financial services providers. 41.2% of the CVaR (previous year: 44.7%) was accounted for by loans extended to German customers, with 41.4% (previous year: 38.0%) related to borrowers in other Western European countries. The risk-reducing impact of the modest decrease in the net loan volume was more than compensated by the changes in ratings and the migration risks taken into account by the model.

In the past year, provisions for loan losses reported in the balance sheet were down to €617.6m, a decrease as compared with the previous year (€669.1m). Of this amount, €523.5m (previous year: €554.1m) related to specific valuation allowances for loans and securities, €15.1m (previous year: €20.7m) to portfolio valuation allowances for country risks, €72.0m (previous year: €74.1m) to portfolio valuation allowances for creditworthiness risks and provisions for portfolio risks, and €7.0m (previous year: €20.2m) to provisions for specific valuation allowances in off-balance sheet lending.

The allocation of provisions for loan losses and securities to the segments is shown in figure 19.

As collateral for the impaired individual exposures, securities were taken into account in the financial institutions risk segment; in the property risk segment, charges on property were essentially accounted for, and aircraft and ship mortgages as well as sureties were included for the transport & trade finance risk segment. Sureties were taken into account when determining portfolio valuation allowances for country risks. Collateral of sustainable value were included when determining portfolio valuation allowances for creditworthiness risks.

Collateral totalling €88.6m (previous year: €0.7m) was utilised in the past financial year.

Operational risks

Risk management and monitoring

Operational risks (OR) naturally depend heavily on the type of business activity and, unlike market price and credit

Provision for loan losses by risk segment *(Fig. 19)*

€m	Financial institutions	Funds	Transport & trade finance	Utility & project finance	Property risk	Public infrastructure	Equity investments	Corporates	Other	31.12. 2010	31.12. 2009	31.12. 2008
Impaired gross loan volume[1]	538.7	0.0	212.3	0.0	168.1	0.0	0.0	68.1	0.0	987.2	1,214.8	811.0
Collateral at fair value	32.8	0.0	159.1	0.0	39.9	0.0	0.0	0.0	0.0	231.8	302.0	292.3
Impaired net loan volume[1]	505.9	0.0	53.2	0.0	128.2	0.0	0.0	68.1	0.0	755.4	912.8	518.7
Provision for loan losses[2]	392.4	0.8	47.3	21.4	102.6	8.6	3.0	40.5	1.0	617.6	669.1	360.5
Specific valuation allowances	389.9	0.0	20.7	0.0	84.8	0.0	0.0	28.1	0.0	523.5	554.1	274.3
Provisions	0.0	0.0	0.0	0.0	2.6	0.0	3.0	1.4	0.0	7.0	20.2	14.0
Portfolio valuation allowances for country risks	0.0	0.0	15.1	0.0	0.0	0.0	0.0	0.0	0.0	15.1	20.7	24.2
Portfolio valuation allowances for creditworthiness risks	2.5	0.8	11.5	21.4	15.2	8.6	0.0	11.0	1.0	72.0	74.1	48.0

1) Gross and net loan volumes impaired by specific and country valuation allowances.
2) Provisions for loan losses in balance sheet exceed the net loan volume as portfolio valuation allowances have been recognised.

risks, are process-specific. As part of its OR strategy, DekaBank therefore adopts a decentralised approach to identifying and assessing operational risks as well as to documenting loss. The heads of the respective Group units are responsible for managing operational risks in their divisions. This includes the obligation to systematically indicate latent risks and damages above a defined minimum limit. This reporting obligation is monitored by the Operational Risk Control unit in the Corporate Centre Group Risk and Internal Audit.

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

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

In addition to the methods for which Operational Risk Control is responsible within the Group, a number of other cross-divisional functions at DekaBank play an important role in identifying, assessing and managing such operational risks.

Corporate Security Management & Data Security Management

All issues and tasks concerning corporate and data security in the DekaBank Group are pooled in the Corporate Security Management and Data Security Management units. Key tasks of the units include making provisions to ensure business continuity, risk management related to corporate security and crisis management, managing data security risks and maintaining an appropriate level of data security.

Business continuity management (BCM) ensures that disaster risks related to business operations are identified and assessed, that the relevant preventative and disaster recovery measures are organised, and that the restoration of processes in emergency situations is specifically managed.

A central unit (Data Security Management) advises and supports all of DekaBank's business units on all aspects related to data security. This ensures that an appropriate level of data security is established and maintained in the long term, taking into account the units' specific business and protection requirements.

Corporate Security Management and Data Security Management jointly ensure that security risks to the Group are identified and that risk-minimising measures are taken where required. Existing risks are identified, assessed and rendered transparent and manageable through reporting. The implementation of security measures reduces operational risks.

Compliance

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

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

Accounting-related internal control and risk management system

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

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

- through non-uniform use of posting, reporting and accounting standards in the Group,

- as a result of the incorrect reporting of business transactions,

- due to malfunctions and errors of the IT systems used in accounting.

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

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

The Group guideline governs the reporting of business transactions on a centralised basis. The guideline describes key accounting facts and documents the uniform specialist procedure that applies throughout the entire Group. This ensures that the same business transaction is reported uniformly by different Group units and companies in compliance with the applicable accounting standards. Specific work instructions are used to implement the Group guideline at the operational level in the relevant individual specialist departments. These instructions also provide a description of the control mechanisms to be considered.

Guidelines and authorisation concepts have been developed for the central systems which generate accounting information as part of the preparation of the financial statements. Compliance with these guidelines and concepts is regularly monitored by Internal Audit and external auditors.

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

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

Quantifying operational risks

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

Self Assessment

Using the process-based self-assessment method, the operational risks throughout the Group are regularly identified and assessed on a decentralised basis by experienced employees (assessors) for their own reporting units in the form of detailed and structured loss scenarios. Existing scenarios are compared with internal and external documented losses and supplemented and/or adjusted as required. To measure the risk, the amount and frequency of losses are assessed and aggregated to form a loss potential. The primarily goal of the self-assessment is to implement a consistent, corporate-wide risk inventory which can be used by the heads of the Group units to define and prioritise action plans for reducing operational risks.

Scenario analysis

Scenario analyses are used for the detailed examination and assessment of very rare loss events arising from operational risks, which are potentially associated with severe losses and which cannot be adequately covered by the self-assessment process, generally due to a lack of lossbased experience. The entire range of operational risks is recorded and systematically assessed by combining both of the future-oriented methods.

During the scenario analysis, process and system experts identify the main risk drivers in a loss scenario and vary the severity of such drivers. As a result, the impact of different scenarios can be assessed, including extreme stress. By incorporating risk indicators (factors related to the general economic environment and internal control), which are usually updated monthly, risk trends can promptly be identified and measures taken as required.

In the reporting year, the scenario analysis was expanded and in particular, additional risk indicators were included, thus improving and strengthening the early warning system.

Loss documentation

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

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

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

Stress tests for operational risks

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

The impact of the macro-economic stress tests, which were newly defined in the year under review, is also established with regard to operational risks.

Reporting of operational risks

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

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

Current risk situation

The value-at-risk determined in accordance with the advanced measurement approach for operational risks (confidence level 99.9%, risk horizon of one year) was down on the previous year's level (€138m) by 4.5%, amounting to €132m as at year-end 2010 (Fig. 20). It moved in a narrow range of between €130m and €140m.

Value-at-risk *(Fig. 20)*

As compared with the previous year, the number of losses decreased sharply, to 33 (2009: 49). The resultant total loss amounted to €4.1m (previous year: €3.2m). The accumulated losses as at the reporting date were approximately 5% down on the same figure for the previous year. New losses were offset, in particular by the partial reversal of provisions for a loss expected in the previous year.

The potential losses from operational risks determined as part of the risk inventory (ex-ante assessment) were around the €60m mark in the course of the year and amounted to €53.7m at the year-end (end of 2009: €62.1m). On the basis of new risk assessments as part of scenario analysis and successful measures taken to minimise risks, potential losses have been reduced, particularly in the AMI and C&M business divisions.

Liquidity risks

Risk management and monitoring

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

In principle, liquidity risk is managed on a cross-portfolio and Group-wide basis. All product types are included. The central aims are to avoid liquidity bottlenecks at the Group level and comprehensively ensure solvency at all times as well as to generate positive profit contributions from liquidity management. The planning, management and monitoring of liquidity is based on the liquidity status, funding matrices, stress scenarios and liquidity key ratios in accordance with the Liquidity Directive (Section 11, German Banking Act, KWG).

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

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

Quantifying liquidity risk

Liquidity status

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

Funding matrices

In addition, the liquidity position is analysed and monitored by the unit Funding, Liquidity & ALM in the Corporate Centre Group Risk. To this end, the various funding matrices are prepared and reported.

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

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

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

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

The "intended holding period – Group" matrix is the lead funding matrix in the DekaBank Group. It is based on the strategic investment horizon of securities in the IAS held to maturity (htm) and loans and receivables (lar) categories as well as transactions with a long intended holding period rather than on convertibility into cash and eligibility for refinancing. Early warning and traffic light system limits have been defined for the funding matrices.

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

Stress scenarios

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

Liquidity ratio under the Liquidity Directive

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

Reporting the liquidity risk

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

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

The stress tests are performed on the basis of the "intended holding period – Group" funding matrix.

Current risk situation

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

As at 31 December 2010, the accumulated liquidity balance of the DekaBank Group's funding matrix in the short-term range (up to one month) amounted to €8.3bn (end of 2009: €13.5bn). In the maturity band of up to six months, the surplus totalled €6.3bn (end of 2009: €7.5bn), and for up to twelve months, amounted to €9.9bn (end of 2009: €9.6bn), (Fig. 21).

At the same time, the liquidity structure analysis highlights the broad diversification of refinancing by investor and product groups. DekaBank's liquidity position remains very strong even under stress conditions. All three stress scenarios showed marked liquidity surpluses in the short maturity band of up to one month.

The regulatory requirements of the Liquidity Directive were again clearly surpassed at all times during the reporting period. The annual average for the liquidity ratio of the first maturity band, determined on a daily basis, was 1.57 (previous year: 1.66). It was always within a range of 1.41 and 1.79. The figure at the close of the year was 1.56 (end of 2009: 1.67).

Intended holding period funding matrix of DekaBank Group as at 31 December 2010 *(Fig. 21)*

€m	<=1M	>1M-12M	>12M-7Y	>7Y-30Y	>30Y	Total
Securities, loans and promissory note loans[1]	8,648	18,705	42,730	8,563	57	78,702
Other money market transactions (lending)[2]	25,080	6,584	5,495	0	1,198	38,356
Derivates[3]	-1,809	-4,068	-4,870	-213	0	-10,961
Refinancing funds[4]	-36,766	-11,108	-44,176	-4,620	-4,442	-101,113
Other balance sheet items[5]	-59	-53	-40	-15	-4,108	-4,275
Liquidity balance (acc. gap + acc. liquidity potential) DekaBank Group	**8,317**	**9,938**	**4,151**	**7,252**	**-43**	

1) Including irrevocable credit commitments and guarantees.
2) Of which approx. €17.0bn collateralised repo transactions
3) Including synthetic lending substitute transactions
4) Including in particular short-term products, own certificates and funding
5) Including silent capital contributions and equity

Other risks

Business risks

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

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

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

The rise in the business risk to a VaR of €427m (end of 2009: €383m) is primarily attributable to the AMK division. Here, net commission increased and at the same time a higher proportion of commission was related to equity funds, the volatility of which is higher than that of bond investments. However, in the AMI division business risk was similar to the previous year's level, since the rise in net commission was moderate and volatility was largely unchanged. The comprehensive remaining business risk for activities outside of Asset Management was down on the previous year's figure.

Shareholding risk

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

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

At €37m, the VaR related to the shareholding risk remained at the previous year's level (end of 2009: €37m).

Property risk

The property risk is measured on the basis of the IFRS book values of the property held in the Bank's portfolio and the volatilities in relative changes in value of the property in the respective location. With a VaR of €7m, the property risk was of secondary importance, as was the case in the previous year (€8m).

Property fund risk

The property fund risk primarily results from property fund units held in the Bank's own portfolio and here, especially from start-up finance. In the reporting year, the Bank's own holdings of units in the Deka-ImmobilienEuropa fund (formerly Deka-ImmobilienFonds) were reduced in full.

After the marked reduction in the previous year (from €150m to €12m), the property fund risk remains at a low level. With a VaR of €15m at year-end 2010, it does not represent a material risk for DekaBank.

Capital market credit products

The portfolios of capital market credit products are fully integrated into DekaBank's risk management system, which is described in the preceding sections.

In line with DekaBank's revised business strategy, the positions in the capital market credit portfolio have been reported as either core business or non-core business since the first quarter of 2009. This division is based on product types, which in the core business are of strategic importance for DekaBank and in the non-core business have been assigned to the exit portfolio.

The capital market credit products in the core business are managed by the Treasury sub-division and essentially comprise single-name and index CDS transactions, corporate bonds and transactions as part of long-term liquidity investment. The net nominal value declined in the course of the year to €6.5bn (end of 2009: €8.4bn), due to scheduled expiry of transactions and closures relating to CDS and index CDS transactions as well as sales and redemptions of bonds.

Asset-backed securities (ABS), commercial mortgagebacked securities (CMBS), residential mortgage-backed securities (RMBS), collateralised loan obligations (CLO), synthetic collateralised debt obligations (index and bespoke), structured finance collateralised debt obligations (SFCDO) and constant proportion portfolio insurance (CPPI) are included in the non-core business. They are not strategically important for DekaBank. The positions in non-core business totalled a net nominal value of €2.2bn at year-end (end of 2009: €2.9bn). The reasons for the lower volume include early repayment on securitisation transactions as well as sales of securitisation and synthetic CSO transactions. Currency effects only had a negligible impact on the reduction of the net nominal value.

The volume of non-core business will be decreased over the coming years both through the planned reduction while safeguarding assets at the same time and the scheduled expiry of transactions. No new business will be entered into.

Management, monitoring and limiting

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

In line with DekaBank's current corporate credit risk strategy, limit monitoring is carried out independently and on a daily basis by the Corporate Centre Group Risk for non-core business products, using the Investment Directive for Structured Capital Market Credit Products, which applies to the entire product universe in DekaBank's noncore business. The full Board of Management is immediately notified of any limit overruns.

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

Approach and valuation

The valuation of capital market credit products categorised at fair value is largely market-oriented. Only the fair values of non-synthetic securitisation transactions in non-core business with a nominal volume of €1.1bn are determined using the modified discounted cash flow model. This takes into account the impact of market disruptions and irrational fluctuations in liquidity spreads on DekaBank's earnings.

Rating overview

On the whole, the ratings in the portfolio of the core business (Treasury) are good and almost exclusively in the investment grade range. Appreciable rating migrations only occurred in connection with maturities and selling.

In non-core business (structured capital market credit products), selected securitisation and CLO transactions were downgraded. However, excluding the low volume of bespoke CSO positions, the ratings for the majority of non-core business transactions are also good, with around 88.2% of the ratings in the investment grade range.

The rating overview for non-core business shows the external ratings on a conservative basis, to the effect that where several external ratings are available for a transaction, the overview shows the lowest rating (Fig. 22).

Structured capital market credit products by rating class (nominal value in €m) *(Fig. 22)*

Product		AAA	AA	A	BBB	Non investment grade	Unrated	Total
Structured	ABS	122.7	23.7	45.8	38.3	46.1	0.0	276.6
	RMBS	252.7	167.2	128.6	5.0	0.0	0.0	553.6
	CMBS	280.9	152.2	76.3	68.0	26.3	0.0	603.7
	CLO	0.0	188.1	184.8	89.3	100.2	0.0	562.4
	CSO	0.0	0.0	0.0	0.0	75.0	0.0	75.0
	Structured finance CDO	20.0	0.0	10.0	0.0	0.0	0.0	30.0
Alternative	CPPI	0.0	0.0	100.0	0.0	0.0	0.0	100.0
Total		**676.4**	**531.2**	**545.6**	**200.6**	**247.6**	**0.0**	**2,201.3**

Country overview

In terms of countries, non-core business continues to focus on Western Europe and in particular on German and pan-European structures. The European market accounted for around 80.4% of securitisation transactions. With regard to CMBS, a substantial amount is held via UK securitisation transactions, which corresponds to the general distribution of European CMBS securitisation. The only important positions outside Europe are CLO and CSO securitisation transactions (Fig. 23).

Core business is also concentrated in Western Europe. Almost half of the bond positions were attributable to the financial sector at mid-year. Nearly all of the positions in the core business are denominated in euros, and thus currency effects are only negligible.

IFRS categorisation

The vast majority of the portfolio of structured capital market credit products is allocated to the IFRS at-fair-value category (Fig. 24). Only 107 positions are currently still valuated using the modified discounted cash flow method (DCF).

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

Structured capital market credit products by risk country (nominal value in €m) *(Fig. 23)*

Product	Structured						Alternative	Total
Country	ABS	RMBS	CMBS	CLO	CSO	Structured Finance CDO	CPPI	
Germany	145	17	164	0	0	0	0	325
UK	14	128	255	17	0	0	0	414
Spain	4	107	0	0	0	0	0	112
Italy	45	140	13	0	0	0	0	198
Benelux	8	99	172	0	0	0	0	279
Scandinavia	0	0	0	22	0	0	0	22
Rest of Europe	25	63	0	313	0	20	0	421
USA	36	0	0	211	75	10	50	381
Other/global	0	0	0	0	0	0	50	50
Total	**277**	**554**	**604**	**562**	**75**	**30**	**100**	**2,201**

Structured capital market credit products by IFRS valuation category (in €m) *(Fig. 24)*

				IFRS valuation category	
Product		**Nominal**	**Book value**	**afv**	**lar**
Structured	ABS	276.6	222.0	141.3	80.7
	RMBS	553.6	460.2	417.7	42.5
	CMBS	603.7	520.1	347.0	173.1
	CLO	562.4	468.1	468.1	0.0
	CSO CLN	75.0	53.0	53.0	0.0
	Structured finance CDO	30.0	13.7	13.7	0.0
Alternative	CPPI	100.0	102.1	102.1	0.0
Total		**2,201.3**	**1,839.2**	**1,542.9**	**296.3**

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

Maturity profil

The average maturity of the bond portfolio in the core business shortened in the course of the year and was 4.9 years (all positions) as at 31 December 2010. In the held to maturity (htm) category, it was 6.5 years. CDS had a maturity of 4.5 years for the secured party. Transactions within the scope of the liquidity investment will expire in approximately 4.5 years and CPPI positions in 4.5 and 6.5 years.

In addition to the legal final maturity, securitised products in the non-core business only feature an expected maturity, since the actual cash flow may differ from the forecast cash flow. The portfolio mean is an expected average remaining maturity of around four years.

Current risk situation

Based on a confidence level of 95% and a holding period of ten days, the credit spread risk of all capital market credit products in the at fair value category (core and non-core business) totalled €28.0m at the 2010 reporting date (end of 2009: €76.2m). As a result, the VaR calculated for the Treasury portfolio (core business) was €14.1m (end of 2009: €26.4m) and for non-core business amounted to €25.1m (end of 2009: €65.6m).

Annual financial statements

Balance sheet

Balance sheet as at 31 December 2010

Assets		€	€	€	31.12.2009 €'000
1. **Cash reserves**					
a) Cash on hand			14,261.92		29
b) Balances with central banks			511,791,767.91	**511,806,029.83**	247,744
of which: with Deutsche Bundesbank	511,791,767.91 Euro				(247,744)
2. **Due from banks**					
a) due on demand			5,441,394,540.22		6,122,175
b) other claims			26,970,956,835.24	**32,412,351,375.46**	37,154,381
of which: public sector loans	10,859,648,184.36 Euro				
3. **Due from customers**				**20,351,526,789.20**	22,540,579
of which:					
mortgage loans	432,797,329.83 Euro				(304,156)
public sector loans	5,583,824,479.64 Euro				(6,111,688)
other loans secured by mortgages	433,757,214.40 Euro				
4. **Bonds and other** fixed-interest securities					
a) Money market securities					
aa) from public sector issuers		0.00			1,673,183
of which: eligible as collateral with Deutsche Bundesbank	0.00 Euro				(1,673,183)
ab) from other issuers		640,197,688.89	640,197,688.89		1,148,855
of which eligible as collateral with Deutsche Bundesbank	640,197,688.89 Euro				(1,138,271)
b) Bonds and debt securities					
ba) from public sector issuers		1,648,660,228.02			7,132,484
of which eligible as collateral with Deutsche Bundesbank	1,518,284,238.37 Euro				(7,012,763)
bb) from other issuers		11,336,440,181.73	12,985,100,409.75		26,195,801
of which eligible as collateral with Deutsche Bundesbank	7,507,578,400.48 Euro				(21,315,630)
c) own bonds			1,262,083,372.96	**14,887,381,471.60**	2,155,860
Nominal amount	1,219,948,594.00 Euro				(2,198,113)
5. **Shares and other non fixed-interest securities**				**3,964,643,128.41**	10,729,617
6. **Trading portfolio**				**58,839,735,896.65**	
7. **Equity investments**				**62,203,530.08**	70,758
of which: In banks	2,789,404.99 Euro				(2,789)
8. **Shares in affiliated companies**				**368,194,606.05**	372,364
of which: in banks	69,175,333.01 Euro				(69,175)
in financial services providers	11,687,450.00 Euro				(11,687)
9. **Trust assets**				**206,238,909.48**	167,619
10. **Intangible assets**					
Concessions, industrial property rights and similar rights and values, as well as licences there to, acquired for a consideration			7,181,650.00	**7,181,650.00**	8,211
11. **Tangible assets**				**21,033,425.12**	23,339
12. **Other assets**				**124,899,519.26**	14,183,693
13. **Prepaid expenses and accrued income**					
a) from underwriting and lending business			66,830,162.33		
b) other			31,572,661.55	**98,402,823.88**	137,302
14. **Excess of plan assets over pension liabilities**				**14,102,422.64**	
Total assets				131,869,701,577.66	130,063,994

Liabilities		€	€	€	31.12.2009 €'000
1. **Due to banks**					
a) due on demand			2,304,542,706.68		4,043,275
b) with agreed maturity or period of notice			12,585,298,369.97	14,889,841,076.65	28,144,645
of which: registered public sector Pfandbriefe	2,619,728,958.50 Euro				
2. **Due to customers**					
Other liabilities					
a) due on demand			3,321,748,721.60		4,007,075
b) with agreed maturity or period of notice			14,008,689,777.56	17,330,438,499.16	15,805,587
of which: registered public sector Pfandbriefe	6,973,211,172.51 Euro				
3. **Securitised liabilities**					
a) bonds issued			33,918,555,073.27		35,742,071
of which: mortgage Pfandbriefe	30,149,092.47 Euro				
public sector Pfandbriefe	8,800,996,955.16 Euro				
b) other securitised liabilities			753,584,760.35	34,672,139,833.62	6,363,930
of which: money market papers	753,584,760.35 Euro				
4. **Trading portfolio**				58,623,752,625.08	
5. **Trust liabilities**				206,238,909.48	167,619
6. **Other liabilities**				722,886,307.27	30,166,191
7. **Accruals and deferred income**					
a) from underwriting and lending business			41,483,123.23		
b) other			6,249,959.74	47,733,082.97	97,717
8. **Provisions**					
a) provisions for pension and similar obligations			12,032,413.97		241,348
b) provisions for taxes			183,418,196.56		120,061
c) other provisions			537,894,769.04	733,345,379.57	629,865
9. **Subordinated liabilities**				822,123,205.46	1,052,258
10. **Profit participation capital**				78,000,000.00	78,000
of which: due in less than two years	58,000,000.00 Euro				(0)
11. **Fund for general banking risks**				2,521,168,015.79	1,971,925
of which: special item pursuant to Section 340e (4) HGB	15,408,000.00 Euro				
12. **Equity**					
a) Subscribed capital					
aa) subscribed capital		286,323,453.46			286,323
ab) silent capital contributions		552,360,457.03	838,683,910.49		808,006
b) Capital reserves			189,366,198.03		189,366
c) Retained earnings					
ca) reserves required by the Bank's statutes		51,283,598.27			51,284
cb) other retained earnings		114,068,590.47	165,352,188.74		68,816
d) Accumulated profit			28,632,345.35	1,222,034,642.61	28,632
Total liabilities				131,869,701,577.66	130,063,994
1. **Contingent liabilities**					
Liabilities from guarantees and warranty agreements				1,637,455,948.74	3,237,212
2. **Other liabilities**					
Irrevocable lending commitments				2,294,846,860.28	2,834,573

Income statement

For the period 1 January to 31 December 2010

Expenses and income

				2010	2009
	€	€	€	€	€'000
1. Interest income from					
a) Lending and money market transactions		2,841,675,946.56			3,370,098
b) Fixed-income securities and debt register claims		505,085,167.54	3,346,761,114.10		1,283,640
2. Interest expenses			3,122,878,905.97	223,882,208.13	3,850,806
3. Current income from					
a) Shares and other non fixed-interest securities			35,911,578.08		238,772
b) Equity investments			2,089,982.39		2,675
c) Shares in affiliated companies			226,127,575.58	264,129,136.05	130,467
4. Income from profit pooling, profit transfer and partial profit transfer agreements				144,312,142.11	111,254
5. Commission income			848,431,773.69		780,327
6. Commission expenses			658,713,341.16	189,718,432.53	599,558
7. Net income from trading portfolio				138,664,803.31	-303,640
8. Other operating income				305,126,046.55	298,024
9. General administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		237,923,447.74			231,529
ab) Social security contributions and expenses for pensions and other employee benefits		39,653,149.14	277,576,596.88		45,483
of which: for retirement pensions	15,460,021.07				(21,765)
b) Other administrative expenses			327,384,766.00	604,961,362.88	319,598
10. Write-downs and valuation allowances on intangible assets and tangible assets				7,246,707.06	6,771
11. Other operating expenses				103,008,699.33	83,483
12. Write-downs and valuation allowances on claims and certain securities and allocations to provisions for loan losses				0.00	134,811
13. Income from write-ups to claims and certain securities and from reversals of provisions for loan losses				188,582,969.84	0
14. Allocations to the fund for general banking risks				533,835,049.79	418,240
15. Write-downs and valuation allowances on equity investments, shares in affiliates and securities held as fixed assets				6,168,365.97	66,869
16. Expenses due to assumption of losses				15,093,215.59	17,445
17. Profit or loss on ordinary activities				184,102,337.90	137,024
18.- Extraordinary income			13,640,231.18		0
19. Extraordinary expenses			29,181,477.08		0
20. Extraordinary result			-15,541,245.90	-15,541,245.90	0
21. Income taxes				82,837,444.16	16,448
22. Income transferred under profit pooling, profit transfer or partial profit transfer agreements				27,425,973.23	86,300
23. Net income				58,297,674.61	34,276
24. Transfers to retained earnings					
a) to other retained earnings				29,665,329.26	5,644
25. Accumulated profit				28,632,345.35	28,632

Notes

General information

[1] Preparation of the annual financial statements

The annual financial statements of DekaBank Deutsche Girozentrale for the year ended 31 December 2010 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.

Pursuant to Section 67 No. 8 of the Introductory Act of the German Commercial Code (EGHGB), the previous year's figures in the balance sheet, income statement and the notes were not adjusted.

[2] Accounting and valuation methods

General information

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

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

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

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

Unlike the previous year, as of financial year 2010, interest expenses for typical silent capital contributions are no longer reported in the item "Profit transferred under profit pooling, profit transfer or partial profit transfer agreements" but under "Interest expenses".

Valuation of securities portfolios and derivatives

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

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

Valuation models, which are deemed to be appropriate for the respective financial instruments, are used where no prices are available from an active market. Observable market data is always used as the basis where available. However, the availability of observable stock market prices, valid prices or market data varies from financial instrument to financial instrument and can change over time. Furthermore, the valuation models are periodically readjusted and validated as required. Depending on the financial instrument and market situation, it may be necessary to include assumptions and assessments by the management in the valuation. The management also selects suitable modelling techniques, appropriate parameters and assumptions. Where there are no prices from active markets, the fair value is therefore deemed to be the model value as at the reporting date, which reflects a realistic estimate of how the market would probably value the financial instrument.

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

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

In principle, claims and commitments arising from interest rate derivative financial instruments not allocated to the trading portfolio were not valued if they actually served to hedge against market price risks. All other derivative financial instruments not used to hedge against market price risks were valued in line with the imparity principle. For unrealised valuation losses, provisions were recognised for possible losses from pending transactions. Unrealised valuation gains were not recognised as income.

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

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

Fixed assets

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

Securities portfolios intended to be kept long-term and for use in business operations on a permanent basis, were treated as fixed assets and valued according to the diluted lower of cost or market principle.

Currency translation

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

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

Provisions for loan losses

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

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

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

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

- Default in payment lasting more than 90 days;
- Delay or waiver of payment obligations;
- Initiation of enforcement measures;
- Imminent insolvency or overindebtedness;
- Petition for commencement of insolvency proceedings;
- Failure of reorganisation measures.

Provisions

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

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

Similar commitments include commitments for early retirement and transitional payments. These 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 taxes and other provisions were recognised in the amounts required under reasonable commercial judgement.

[3] Derivative transactions

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

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

Derivative transactions – volume – trading portfolio

€m	Nominal values 31.12.2010	Full fair values positive market values 31.12.2010	Full fair values negative market values 31.12.2010
Interest rate risks			
Interest rate swaps	505,675.9	5,443.6	5,335.3
Forward rate agreements	63,418.0	8.6	14.7
Interest rate options			
Purchases	459.5	6.9	—
Sales	1,526.4	0.1	28.6
Caps, Floors	1,191.1	10.6	5.6
Stock exchange traded contracts	7,245.6	2.6	0.9
Other interest rate forward transactions	3,396.2	93.6	237.3
Total	**582,912.7**	**5,566.0**	**5,622.4**
Currency risks			
Forward exchange transactions	4,294.3	70.4	124.3
Currency swaps, interest rate currency swaps	1,076.9	30.1	27.6
Total	**5,371.2**	**100.5**	**151.9**
Share and other price risks			
Share forward transactions	766.4	96.3	4.8
Share options			
Purchases	7,737.1	7,219.2	—
Sales	3,987.5	—	10,244.3
Stock exchange traded contracts	83,141.5	5,970.7	10,187.3
Other forward transactions	12,584.2	227.7	300.2
Total	**108,216.7**	**13,513.9**	**20,736.6**
Overall total	**696,500.6**	**19,180.4**	**26,510.9**

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

€m	Interest rate risks 31.12.2010	Currency risks 31.12.2010	Share and other price risks 31.12.2010
Residual term to maturity			
less than 3 months	188,806.1	951.9	4,918.6
from 3 months to 1 year	145,759.7	3,334.8	17,170.2
from 1 year to 5 years	171,939.9	200.6	80,800.7
more than 5 years	76,407.0	883.9	5,327.2
Total	582,912.7	5,371.2	108,216.7

Derivative transactions – classification by counterparties – trading portfolio

€m	Nominal values 31.12.2010	Full fair values positive market values 31.12.2010	Full fair values negative market values 31.12.2010
Banks in the OECD	566,212.4	6,763.5	7,060.2
Public sector entities in the OECD	4,109.1	95.9	19.8
Other counterparties	126,179.1	12,321.0	19,430.9
Total	696,500.6	19,180.4	26,510.9

Derivative transactions – volume – non-trading portfolio

€m	Nominal values 31.12.2010	Full fair values positive market values 31.12.2010	Full fair values negative market values 31.12.2010
Interest rate risks			
Interest rate swaps	85,697.1	2,417.6	2,705.9
Forward rate agreements	2,000.0	0.4	–
Interest rate options			
Purchases	150.0	–	–
Sales	–	–	–
Stock exchange traded contracts	120.6	0.5	0.1
Other forward transactions	165.0	–	–
Total	88,132.7	2,418.5	2,706.0
Currency risks			
Forward exchange transactions	6,318.0	129.5	89.7
Currency swaps, interest rate currency swaps	10,020.4	355.6	927.8
Total	16,338.4	485.1	1,017.5
Share and other price risks			
Stock exchange traded contracts	113.2	0.2	2.4
Other forward transactions	1,603.5	35.4	13.4
Total	1,716.7	35.6	15.8
Overall total	106,187.8	2,939.2	3,739.3

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

€m	Interest rate risks 31.12.2010	Currency risks 31.12.2010	Share and other price risks 31.12.2010
Residual term to maturity			
less than 3 months	15,682.2	2,626.8	123.2
from 3 months to 1 year	12,440.5	5,629.9	145.0
from 1 year to 5 years	44,621.3	6,059.2	916.5
more than 5 years	15,388.7	2,022.5	532.0
Total	88,132.7	16,338.4	1,716.7

Derivative transactions – classification by counterparties – non-trading portfolio

€m	Nominal values 31.12.2010	Full fair values positive market values 31.12.2010	Full fair values negative market values 31.12.2010
Banks in the OECD	96,654.9	2,587.6	3,466.9
Other counterparties	9,532.9	351.6	272.4
Total	106,187.8	2,939.2	3,739.3

The derivative financial instruments shown in the tables above are exposed to both market price risks and credit risks. Market price risk describes the potential financial loss caused by future market parameters fluctuations. Market price risk comprises interest rate risk (including credit spread risk), currency risk and share price risk with the relevant option risk in each case. We define credit risk as the risk that a borrower, issuer or counterparty will 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, location	Equity interest in %	Equity[1] €'000	Result[2] €'000
Shares in affiliated companies			
DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg	100.0	381,685.2	225,610.0
Deka Investment GmbH, Frankfurt/Main	100.0	83,174.4	111,720.0[3]
Deka Immobilien GmbH, Frankfurt/Main	100.0	36,726.6	-8,611.2[3]
Deka Immobilien Investment GmbH, Frankfurt/Main	100.0	31,245.1	31,833.3[3]
Deka Grundstücksverwaltungsgesellschaft I (GbR), Frankfurt/Main	100.0	20,245.4	1,622.6
ETFlab Investment GmbH, Munich	100.0	10,008.7	-5,659.9[3]
Deka Real Estate Lending k.k., Tokyo	100.0	2,483.7	-805.5
Deutsche Landesbankenzentrale AG, Berlin	100.0	1,457.7	26.6
Deka Beteiligungsgesellschaft mbH, Frankfurt/Main	100.0	967.0	17.8
Deka Investors Investment AG (Teilgesellschaftsvermögen Unternehmensaktien), Frankfurt/Main	100.0	299.0	-2.1
DKC Deka Kommunal Consult GmbH, Düsseldorf	100.0	203.2	-821.7[3]
Gesellschaft für Mittelstandskreditfonds der Sparkassen-Finanzgruppe mbH, Frankfurt/Main	100.0	100.0	–
Deka Vermögensverwaltungs GmbH, Frankfurt/Main	100.0	65.4	25.8[3]
Deka Treuhand GmbH, Frankfurt/Main	100.0	63.6	5.8
STIER Immobilien AG, Frankfurt/Main	100.0	49.6	-0.1
LBG Leasing Beteiligungs-GmbH, Frankfurt/Main	100.0	32.5	0.2
Deka Vorratsgesellschaft 01 mbH, Frankfurt/Main	100.0	25.0	-0.2[3]
Deka Vorratsgesellschaft 02 mbH, Frankfurt/Main	100.0	25.0	-0.2[3]
Deka Verwaltungs GmbH, Frankfurt/Main	100.0	21.9	-1.2
Deka International (Ireland) Ltd., Dublin i.L.	100.0	–	–
WestInvest Gesellschaft für Investmentfonds mbH, Düsseldorf	99.7	11,338.6	733.0[3]
WIV GmbH & Co. Beteiligungs KG, Frankfurt/Main	94.9	12,582.1	482.1
WIV Verwaltungs GmbH, Frankfurt/Main	94.9	52.4	1.6
Deka(Swiss) Privatbank AG, Zurich	80.0	34,448.5	3,476.0
Equity investments			
Deka-Neuburger Institut für wirtschaftsmathematische Beratung GmbH, Frankfurt/Main	50.0	17.2	-13.0
Sparkassen-PensionsManagement GmbH, Cologne	50.0	90,777.4	-279.0
S Broker AG & Co. KG, Wiesbaden	30.6	27,428.2	-2,460.4
Dealis Fund Operations GmbH, Frankfurt/Main	49.9	19,134.5	937.5
Indirect equity investments			
Deka International S.A., Luxembourg	100.0	213,326.4	142,260.5
International Fund Management S.A., Luxembourg	100.0	27,914.3	19,690.0
Roturo S.A., Luxembourg	100.0	3,035.6	11.2
Deka Loan Investors Luxembourg I, Luxembourg	100.0	1,281.1	1.1
Deka Loan Investors Luxembourg II, Luxembourg	100.0	1,281.1	1.1
Deka Immobilien k.k., Tokyo	100.0	494.5	-6.8
Deka Immobilien Luxembourg S.A., Luxembourg	100.0	262.8	136.5
Deka Immobilien Beteiligungsgesellschaft mbH, Frankfurt/Main	100.0	129.0	33.6
NSM Omotesando General Incorporated Association, Tokyo	100.0	93.6	-2.4

Name, location	Equity interest in %	Equity[1] €'000	Result[2] €'000
Perfeus S.A., Luxembourg	100.0	39.1	1.9
Datogon S.A., Luxembourg	100.0	35.8	3.3
Deka Multi Asset Investors Luxembourg, Luxembourg	100.0	31.1	0.1
Europäisches Kommunalinstitut S.A.R.L., Luxembourg	100.0	15.8	—
Deka-WestLB Asset Management Luxembourg S.A., Luxembourg	51.0	1,036.4	-8.2
Sparkassen Pensionskasse AG, Cologne	50.0	64,838.2	2,121.4
Sparkassen Pensionsfonds AG, Cologne	50.0	8,586.4	-429.1
Luxemburger Leben S.A., Luxembourg	50.0	8,000.0	-3,802.6
Sparkassen PensionsBeratung GmbH, Cologne	50.0	100.0	—
Heubeck AG, Cologne	45.0	5,159.8	999.2
Compendata Gesellschaft zur Verwaltung von Vorsorgeeinrichtungen mbh, Cologne	45.0	67.5	13.1
Richttafeln-Unterstützungskasse GmbH, Cologne	45.0	67.2	3.2
Heubeck Richttafeln GmbH, Cologne	45.0	30.8	37.9
Dr. Heubeck Ges. mbH, Vienna	45.0	21.4	1.4
S-Broker Management AG, Wiesbaden	30.6	47.1	-0.2
HEUBECK-FERI Pension Asset Consulting GmbH, Bad Homburg v.d.H.	22.5	89.8	24.7

1) Definition of equity according to Section 266 (3 A.) in conjunction with Section 272 HGB
2) Net profit/net loss in accordance with Section 275 (2) No. 20 HGB
3) A profit transfer agreement has been concluded with these companies

Off-balance sheet contingent liabilities

[5] Letter of comfort

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

[6] Other financial commitments

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

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

There is an obligation to put up additional capital amounting to €4.0m for Deka-S-PropertyFund No.1 Beteiligungs GmbH & Co. KG, Frankfurt/Main as well as an additional capital amount of €5.1m for HELICON Verwaltungsgesellschaft mbH & Co. Immobilien KG, Pullach.

There is an additional funding obligation for the guarantee fund of the *Landesbanken* and *Girozentralen* of €80.8m (previous year: €107.9m).

Notes to the balance sheet

[7] Due from banks

€m	2010	2009
This item includes: Loans to		
affiliated companies	44.2	33.0
companies in which an interest is held	3,753.3	4,978.4
Subordinated loans	–	–
Sub item b. (other claims) – breaks down according to residual term to maturity as follows:		
less than three months	5,281.7	11,209.7
from three months to one year	2,886.9	4,818.1
from one year to five years	16,219.7	13,417.5
more than five years	2,582.7	7,709.0
	26,971.0	**37,154.3**
Used as cover funds	**13,068.2**	**15,897.6**

[8] Due from customers

€m	2010	2009
This item includes: Loans to		
affiliated companies	167.5	128.6
companies in which an interest is held	16.3	64.4
Subordinated loans	–	0.0
This item breaks down by residual term to maturity as follows:		
with indefinite term to maturity	44.3	257.2
less than three months	1,306.5	2,045.3
from three months to one year	1,929.8	2,278.0
from one year to five years	11,415.3	10,921.9
more than five years	5,655.6	7,038.2
	20,351.5	**22,540.6**
Used as cover funds	5,471.0	6,744.1

[9] Bonds and other fixed-interest securities

€m	2010	2009
The marketable securities comprising this item include:		
listed	12,632.6	34,881.6
unlisted	2,254.8	3,424.6
Subordinated securities	**28.7**	**42.7**
Due within one year	**2,848.0**	**13,246.6**
Used as cover funds	**2,801.6**	**2,357.1**
Book value of securities valued according to the diluted lower of cost or market principle	4,704.0	4,996.6
Book value of securities reported at more than fair value	2,722.5	1,609.8
Market value of securities reported at more than fair value	2,571.0	1,518.8

[10] Shares and other non fixed-interest securities

€m	2010	2009
The marketable securities comprising this item include:		
listed	10.2	3,308.7
unlisted	1,136.9	4,598.4
Subordinated securities	**–**	**11.7**

[11] Trading portfolio (assets)

This item breaks down as follows:

€m	2010
Derivative financial instruments	19,173.7
Receivables	15,716.1
Bonds and other fixed-interest securities	21,203.6
Shares and other non fixed-interest securities	2,764.6
Other assets	2.0
Risk mark-down	-20.3
	58,839.7

[12] Equity investments

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

[13] Shares in affiliated companies

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

[14] Trust assets

The reported trust assets comprise amounts due from banks of €88m and amounts due from customers of €117m.

[15] Tangible assets

€m	2010	2009
This item includes:		
Land and buildings used for the Bank's business activities	2.9	3.0
Office equipment	18.1	20.4

[16] Changes in fixed assets

Asset items €m	Cost of acquisition/ production	Additions	Disposals	Accumulated depreciation/amortisation	Depreciation/amortisation for the year	Book value 31.12.2010	Book value 31.12.2009
		Changes +/-[1]					
Equity investments			-8.6			62.2	70.8
Shares in affiliated companies			-4.2			368.2	372.4
Securities held as fixed assets			-512.0			4,704.0	5,216.0
Intangible assets	58.2	3.0	0.0	54.0	4.0	7.2	8.2
Tangible assets	64.6	0.9	0.0	44.5	3.2	21.0	23.3
Total						**5,162.6**	**5,690.7**

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

The change in securities held as fixed assets includes €219.4m plan assets for pensions and similar commitments which were set off against these commitments.

[17] Other assets

€m	2010	2009
This item includes amongst others:		
Tax refund claims	82.0	76.6
Premiums paid and margins for derivative financial instruments	3.1	13,731.6
Due from custodial account holders	3.7	3.5
Corporation tax, capital gains tax and solidarity surcharge refunds	–	3.4

[18] Prepaid expenses and accrued income

€m	2010	2009
This item includes:		
Premium/discount from underwriting and lending business	66.8	94.3
Prepaid expenses and accrued income – derivative financial instruments	14.1	28.2

[19] Genuine repurchase agreements

As at 31 December 2010, the book value of lent securities or securities sold under repurchase agreements amounts to €1,955.4m. Pass-through securities lending transactions of €3,925.2m were also carried out.

[20] Collateral transfer for own liabilities

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

€m	2010
Due to banks	396.2
Due to customers	108.2
Trading portfolio (liabilities)	1,472.2

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

[21] Units or investment shares

€m	Book value 31.12.2010	Market value 31.12.2010	Difference market value – book value	Distribution 2010	Daily redemption possible	Omitted depreciation
Equity funds	1,515.2	1,531.5	16.3	4.1	Yes	No
Bond funds	1,593.5	1,594.1	0.6	15.9	Yes	No
Mixed funds	2,553.1	2,762.2	209.1	17.2	Yes	No
Funds of funds	10.3	10.3	0.0		Yes	No
Property funds	49.8	50.0	0.2	0.1	No	No
Other funds	254.1	254.8	0.7	6.9	No	No
Funds of hedge funds	59.8	59.8	0.0	0.2	No	No
Total	**6,035.8**	**6,262.7**	**226.9**			

[22] Due to banks

€m	2010	2009
This item includes:		
Liabilities to		
affiliated companies	39.8	4,005.1
companies in which an interest is held	2,008.4	2,382.8
Sub item b (with agreed maturity or period of notice) breaks down by residual term to maturity as follows:		
less than three months	5,232.0	19,453.1
from three months to one year	1,831.2	2,232.7
from one year to five years	4,694.2	4,833.5
more than five years	827.9	1,625.3
	12,585.3	**28,144.6**

[23] Due to customers

€m	2010	2009
This item includes:		
Liabilities to		
affiliated companies	237.3	271.5
companies in which an interest is held	31.0	48.8
Sub item b (with agreed maturity or period of notice) breaks down by residual term to maturity as follows:		
less than three months	2,005.6	2,153.0
from three months to one year	933.0	1,101.8
from one year to five years	7,281.1	6,082.9
more than five years	3,789.0	6,467.9
	14,008.7	**15,805.6**

[24] Securitised liabilities

€m	2010	2009
Proportion of sub item a (issued bonds) maturing in the following year	3,592.9	4,681.6
Sub item b (other securities liabilities) breaks down by residual term to maturity as follows:		
with indefinite term	-	5,225.5
less than three months	594.9	850.6
from three months to one year	158.7	282.8
more than five years	-	5.0
	753.6	6,363.9

[25] Trading portfolio (liabilities)

This item breaks down as follows:

€m	2010
Derivative financial instruments	26,456.1
Liabilities	32,167.7
	58,623.7

[26] Trust liabilities

Trust liabilities comprise €88m in amounts due to banks and €117m in amounts due to customers.

[27] Other liabilities

€m	2010	2009
This item includes:		
Foreign exchange equalisation items	525.8	66.2
Bonuses for sales offices	68.3	77.6
Trade payables	35.4	27.0
Interest on participating certificates	5.0	5.0
Due to custodial customers	3.3	5.0
Premiums received and margins for derivative financial instruments	0.4	22,966.6
Short sales of securities	–	6,927.1

[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 %	31.12.2010
Pension trend for adjustments according to Section 16 (2) Company Pension Funds Act (BetrAVG)1)	2.00
Pension adjustment with overall trend updating1)	2.50
Salary trend1)	2.50

1) Not relevant for the valuation of fund-based commitments as these are not dependent on the final salary.

For the forfeitable projected benefits, an average probable staff turnover rate of 3.11% is also used in the calculation.

Provisions for pensions and similar commitments are discounted at the average market interest rate of the past seven years published by Deutsche Bundesbank in January 2011 for an assumed residual time to maturity of 15 years. This interest rate stands at 5.15%.

Provisions for pensions and similar commitments

€m	31.12.2010
Pension provisions	
Acquisition cost of plan assets	224.6
Fair value of plan assets	246.3
Settlement amount of offset liabilities	232.2
Income from plan assets	10.8
Expenses for adding interest	11.1
Excess of plan assets over pension liabilities	14.1
Provisions for working hours accounts	
Acquisition cost of cover assets	1.7
Fair value of cover assets	1.7
Settlement amount of offset liabilities	1.7
Provisions for early retirement and transitional payments	12.0

The reversal of provisions amounting to €15.6m resulting from the first-time valuation of provisions for pensions and similar commitments as at 1 January 2010 in accordance with the provisions of the German Accounting Law Modernisation Act (BilMoG) was transferred in full directly to retained earnings.

[29] Accruals and deferred income

€m	2010	2009
This item includes:		
Premiums/discounts from underwriting and lending business	41.5	53.9
Accruals and deferred income – derivative financial instruments	6.2	43.8

[30] Subordinated liabilities

€m	2010	2009
Expenses from subordinated liabilities	58.1	44.7
Accrued interest on subordinated liabilities	22.1	22.3

Borrowings structured as follows:	Currency	Amount €m	Interest rate	Matures on
Bonds				
	EUR	300.0	5.38%	31.01.2014
	EUR	300.0	4.63%	21.12.2015
Promissory note loans				
	EUR	85.0	6.15 – 6.46%	18.05.2012
	EUR	40.0	4.43%	11.04.2016
	EUR	75.0	6.00%	05.07.2019

The subordinated liabilities comply with the requirements of Section 10 (5a) of the German Banking Act (KWG). The conversion of these funds into capital or any other form of debt has not been agreed or planned. DekaBank has no obligation to make an early repayment. As at the reporting date, subordinated liabilities of €746.7m meet the criteria for recognition as liable equity under Section 10 KWG.

[31] Equity

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

€m	2010	2009
a) Subscribed capital		
Subscribed capital	286.3	286.3
Typical silent capital contributions	500.0	755.6
Atypical silent capital contributions	52.4	52.4
b) Capital reserves	189.4	189.4
c) Retained earnings		
Reserves required by the Bank's statutes	51.3	51.3
Other retained earnings	114.1	68.8
Balance sheet equity	**1,193.5**	**1,403.8**

As at 31 December 2010, other retained earnings include a transfer to the reserves from the 2010 profit of €29.7m.

In conjunction with the first-time application of the German Accounting Law Modernisation Act, €15.6m was transferred directly to retained earnings as a result of the revaluation of pension provisions.

The typical silent capital contributions (tranche I) terminated with effect from 31 December 2009 were repaid during the reporting year with a nominal amount of €255.6m. The interest expenses for tranche I of the capital contributions by silent partners up until the date of repayment amounted to €8.3m (previous year: €28.1m)

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

[32] Contingent and other liabilities

The off-balance sheet contingent liabilities amounting to €1,638.3m mainly comprise guarantees and sureties as well as liabilities under CDS transactions as protection seller. There are also reported irrevocable loan commitments of €2,294.8m. Following the credit rating analyses carried out, it can essentially be assumed that borrowers will meet their commitments and no utilisation is therefore expected. Loan provisions were recognised in individual cases where the default of the borrower is likely.

[33] Foreign currency volumes

€m	2010	2009
Foreign currency assets	12,337.6	14,682.0
Foreign currency liabilities	4,599.2	2,718.6

Notes to the income statement

[34] Net income from trading portfolio

In the reporting year, €15.4m of the net income from the trading portfolio was transferred to the fund for general banking risks.

[35] Other operating income

Other operating income consisted mainly of €239.4m from intercompany offsetting, €32.6m from the reversal of provisions and €20.5m from other tax refunds.

[36] Other operating expenses

This item includes foreign exchange loss of €45.3m in the non-trading book and transfers to provisions amounting to €43.9m and €4.7m from Group offsetting.

[37] Extraordinary result

Extraordinary profit or loss includes the effects of the first-time application of the German Accounting Law Modernisation Act. These comprise the valuation of plan assets at fair value as at 1 January 2010 and the liquidation of valuation units that do not meet the requirements of the new Section 254 HGB.

[38] Management and intermediary services provided for third parties

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

Information relating to Pfandbrief business

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

Mortgage Pfandbriefe

Total amounts by nominal value and present value

	Nominal value		Present value		Risk-adjusted present value + 250 BP		Risk-adjusted present value – 250 BP	
€m	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Outstanding mortgage Pfandbriefe	30	10	30	10	30	10	31	11
Cover funds mortgage Pfandbriefe	189	130	198	136	188	130	210	144
Cover surplus/shortfall	159	120	168	126	158	120	179	133

Maturity structure

Maturity ranges	Less than 1 Year		From 1 year to 2 years		From 2 years to 3 years		From 3 years to 4 years		From 4 years to 5 years	
€m	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Outstanding mortgage Pfandbriefe	0	0	10	0	0	10	0	0	0	0
Cover funds mortgage Pfandbriefe	22	12	0	22	33	0	9	34	70	9

Maturity ranges	From 5 years to 10 years		More than 10 years		Total	
€m	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Outstanding mortgage Pfandbriefe	20	0	0	0	30	10
Cover funds mortgage Pfandbriefe	55	37	0	16	189	130

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

Total amount of additional cover assets

€m	**2010**	**2009**
Additional cover assets in accordance with Section 19 (1) No.s 2 and 3 Pfandbrief Act	49	9

Composition of cover funds by country

Total amounts		Less than 0.3m[1)]		From 0.3m to 5 m[1)]		> 5m[1)]		Other cover		Total
€m	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Federal Republic of Germany	0	0	1	0	96	121	49	9	146	130
France	0	0	0	0	43	0	0	0	43	0
Total	**0**	**0**	**1**	**0**	**139**	**121**	**49**	**9**	**189**	**130**

1) Secured by mortgages

Composition of cover funds by type of use

	Federal Republic of Germany		France		Total	
Total amounts	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Commercial use	97	121	43	0	140	121
Residential use	0	0	0	0	0	0
Other cover	49	9	0	0	49	9
Total	**146**	**130**	**43**	**0**	**189**	**130**

Composition of cover funds by type of building

	Federal Republic of Germany		France		Total	
Total amounts	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Office buildings	44	67	0	0	44	67
Retail buildings	38	38	43	0	81	38
Industrial buildings	0	16	0	0	0	16
Other commercial buildings	15	0	0	0	15	0
Other cover	49	9	0	0	49	9
Total	**146**	**130**	**43**	**0**	**189**	**130**

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

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

As in the previous year, no foreclosure sales were carried out in financial year 2010.

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

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

Public sector Pfandbriefe

Total amounts by nominal value and present value

	Nominal value		Present value		Risk-adjusted present value + 250 BP		Risk-adjusted present value – 250 BP	
€m	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Outstanding public sector Pfandbriefe	19,513	22,000	20,599	23,253	19,560	21,981	21,905	24,816
Cover funds public sector Pfandbriefe	21,196	24,868	22,534	26,364	21,274	24,772	23,720	27,904
Cover surplus/shortfall	1,683	2,868	1,935	3,111	1,714	2,791	1,815	3,088

Maturity structure

Maturity ranges	Less than 1 year		From 1 year to 2 years		From 2 years to 3 years		From 3 years to 4 years		From 4 years to 5 years	
€m	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Outstanding mortgage Pfandbriefe	3,580	4,775	3,067	3,554	5,678	2,613	2,993	4,938	1,359	1,976
Cover funds mortgage Pfandbriefe	2,764	3,091	2,887	2,785	3,090	2,998	3,471	3,224	4,291	3,552

Maturity ranges	From 5 years to 10 years		More than 10 years		Total	
€m	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Outstanding mortgage Pfandbriefe	1,741	2,900	1,095	1,244	19,513	22,000
Cover funds mortgage Pfandbriefe	2,540	6,660	2,153	2,558	21,196	24,868

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

Total amount of additional cover assets

€m	2010	2009
Additional cover assets in accordance with Section 20 (2) No 2 Pfandbrief Act	1	1

Distribution of cover funds

Total nominal value of cover assets by country/type	Country		Regional authorities		Local authorities		Other debtors		Total	
€m	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Federal Republic of Germany	229	280	2,632	2,473	667	880	15,768	19,038	19,296	22,671
Denmark	0	0	0	0	0	0	75	0	75	0
European Investment Bank (EIB)	0	0	0	0	0	0	29	28	29	28
Finland	0	0	0	0	22	28	1	118	23	146
France (excluding Monaco)	0	0	0	0	0	0	0	124	0	124
Greece	50	50	0	0	0	0	0	0	50	50
Great Britain and Northern Ireland (including Isle of Man, British Channel Islands)	0	0	0	0	0	0	481	254	481	254
Ireland, Republic	30	30	0	0	0	0	0	25	30	55
Italy (excluding San Marino)	0	0	8	7	6	12	0	0	14	19
Canada	0	0	64	59	0	0	37	34	101	93
Lithuania	0	0	0	0	49	49	0	0	49	49
Netherlands	0	0	0	0	0	0	0	0	0	0
Austria	0	0	0	0	0	0	0	5	0	5
Poland	164	114	0	0	0	0	0	0	164	114
Portugal (including Azores and Madeira)	0	0	0	0	0	0	60	60	60	60
Sweden	0	0	0	0	0	0	0	266	0	266
Slovakia	5	5	0	0	0	0	0	0	5	5
Spain	0	0	10	0	0	0	122	190	132	190
Czech Republic	0	0	0	0	0	0	27	27	27	27
Hungary	0	0	0	0	0	1	0	0	0	1
United States of America (including Puerto Rico)	0	0	0	0	0	0	660	711	660	711
Total	478	479	2,714	2,539	744	970	17,260	20,880	21,196	24,868

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

Other information

[40] Related party disclosures

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

[41] Average number of staff

Number	2010	2009
Full-time employees	2,044	2,075
Part-time and temporary employees	341	332
	2,385	2,407

[42] Remuneration of Board members

€	2010	2009
Remuneration of active Board members		
Board of Management	7,713,176.50	5,153,791.14
Administrative Board	684,111.11	657,327.77
Remuneration paid to former Board members and surviving dependants		
Board of Management	2,208,782.25	2,538,106.62
Provisions for pension commitments to these persons	25,657,291.00	25,627,850.00

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

[43] Loans to Board members

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

Seats on supervisory bodies

[44] Notes to seats on supervisory bodies (as at January 2011)

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

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

Oliver Behrens (Member of the Board of Management)

Chairman of the Supervisory Board	Deka Investment GmbH	Frankfurt/Main
Chairman of the Supervisory Board (until 12.08.2010)	Deka FundMaster Investmentgesellschaft mbH	Frankfurt/Main
Chairman of the Supervisory Board	Sparkassen Pensionsfonds AG	Cologne
Chairman of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Chairman of the Administrative Board	Deka(Swiss) Privatbank AG	Zurich, Switzerland
Deputy Chairman of the Supervisory Board	Sparkassen-PensionsManagement GmbH	Cologne
Deputy Chairman of the Supervisory Board	Sparkassen Pensionskasse AG	Cologne
Deputy Chairman of the Supervisory Board	Sparkassen PensionsBeratungs GmbH	Cologne
Deputy Chairman of the Supervisory Board (from 09.10.2010)	S Broker AG & Co. KG	Wiesbaden
Member of the Supervisory Board (from 09.10.2010 until 10.11.2010) Deputy Chairman of the Supervisory Board (from 11.11.2010)	S Broker Management AG	Wiesbaden
Member of the Shareholder Committee	Dealis Fund Operations GmbH	Frankfurt/Main
Managing Director (from 15.02.2010)	OncamB Vermögensverwaltungsgesellschaft mbH	Bad Soden/Taunus

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

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

Walter Groll (Member of the Board of Management)

Chairman of the Supervisory Board	ETFlab Investment GmbH	Munich
Deputy Chairman of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg

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

Deputy Chairman of the Supervisory Board	Deka Immobilien GmbH	Frankfurt/Main
Deputy Chairman of the Supervisory Board (until 12.08.2010)	Deka FundMaster Investmentgesellschaft mbH	Frankfurt/Main
Deputy Chairman of the Supervisory Board (until 08.10.2010)	S Broker AG & Co. KG	Wiesbaden
Deputy Chairman of the Supervisory Board (until 08.10.2010)	S Broker Management AG	Wiesbaden
Member of the Supervisory Board (from 25.08.2010)	Gesellschaft für Mittelstandskreditfonds der Sparkassen-Finanzgruppe mbH	Frankfurt/Main
Member of the Supervisory Board	Sparkassen-PensionsManagement GmbH	Cologne
Member of the Supervisory Board	Sparkassen Pensionsfonds AG	Cologne
Member of the Supervisory Board	Sparkassen Pensionskasse AG	Cologne
Member of the Supervisory Board	Sparkassen PensionsBeratungs GmbH	Cologne
Member of the Administrative Board	Deka(Swiss) Privatbank AG	Zurich, Switzerland
Member of the Supervisory Board	Deutsche Landesbankenzentrale AG	Berlin

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

Deputy Chairman of the Supervisory Board	Deka Investment GmbH	Frankfurt/Main
Deputy Chairman of the Supervisory Board	ETFlab Investment GmbH	Munich
Deputy Chairman of the Supervisory Board	Deka Immobilien Investment GmbH	Frankfurt/Main
Deputy Chairman of the Supervisory Board	WestInvest Gesellschaft für Investmentfonds mbH	Düsseldorf
Deputy Chairman of the Supervisory Board	SIZ Informatikzentrum der Sparkassenorganisation GmbH	Bonn
Deputy Chairman of the Supervisory Board	Deutsche Landesbankenzentrale AG	Berlin
Member of the Supervisory Board	Deka Immobilien GmbH	Frankfurt/Main
Member of the Supervisory Board (until 12.08.2010)	Deka FundMaster Investmentgesellschaft mbH	Frankfurt/Main
Member of the Supervisory Board	Sparkassen Rating und Risikosysteme GmbH	Berlin
Member of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Member of the Administrative Board	Deka(Swiss) Privatbank AG	Zurich, Switzerland
Member of the Shareholders Committee	Dealis Fund Operations GmbH	Frankfurt/Main

Board members of DekaBank Deutsche Girozentrale

[45] Notes to the Board members of DekaBank Deutsche Girozentrale (as at 31.01.2011)

Board of Management

Franz S. Waas, Ph.D.
Chairman of the Board of Management

Oliver Behrens
Member of the Board of Management

Dr. Matthias Danne
Member of the Board of Management

Walter Groll
Member of the Board of Management

Hans-Jürgen Gutenberger
Member of the Board of Management

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

Administrative Board

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

Hans-Jörg Vetter
First Deputy Chairman
Chairman of the Management Board of
Landesbank Baden-Württemberg

Dr. Rolf Gerlach
Second Deputy Chairman
President of the
Savings Bank Association of Westphalia-Lippe

Hans-Dieter Brenner
Chairman of the Management Board of
Landesbank Hessen-Thüringen Girozentrale

Klemens Breuer
(from 15.04.2010)
Member of the Management Board of
WestLB AG

Michael Breuer
President of the
Rhineland Savings Banks and Giro Association

Thomas Christian Buchbinder
Chairman of the Management Board of
Landesbank Saar

Dr. Gunter Dunkel
Chairman of the Management Board of
NORD/LB Norddeutsche Landesbank Girozentrale

Stefan Ermisch
(from 01.03.2010 until 14.04.2010)
Chairman of the Management Board of
Bayerische Landesbank

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

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

Klaus-Dieter Gröb
(until 31.12.2010)
Member of the Management Board of
Landesbank Hessen-Thüringen Girozentrale

Gerd Häusler
(from 15.04.2010)
Chairman of the Management Board of
Bayerische Landesbank

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

Michael Horn
Dep. Chairman of the Management Board of
Landesbank Baden-Württemberg

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

Thomas Mang
President of the
Savings Banks Association of Lower Saxony

Harald Menzel
Chairman of the Management Board of
Sparkasse Mittelsachsen

Dr. Siegfried Naser
(until 28.02.2010)
Managing President of the
Savings Banks Association Bavaria

Prof. Dr. Dirk Jens Nonnenmacher
Chairman of the Management Board of
HSH Nordbank AG

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

Helmut Schleweis
(from 01.03.2010)
Chairman of the Management Board of
Sparkasse Heidelberg

Peter Schneider
President of the
Savings Banks Association Baden-Württemberg

Hans Otto Streuber
President of the
Savings Banks Association Rhineland Palatinate

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

Dietrich Voigtländer
Chairman of the Management Board of
WestLB AG

Theo Zellner
(ab 15.06.2010)
Managing President of the
Savings Banks Association Bavaria

Employee representatives appointed by the Staff Committee

Michael Dörr
Chairman of the Staff Committee of
DekaBank Deutsche Girozentrale

Heike Schillo
Sales – Savings Banks South
DekaBank Deutsche Girozentrale

Representatives appointed by the Federal Organisation of Central Municipal Organisations

Dr. Stephan Articus
Executive 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
(from 01.02.2010)
Mayor of the City of Bergkamen and
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, 4 March 2011

DekaBank
Deutsche Girozentrale

The Board of Management

Waas, Ph.D.	Behrens	Dr. Danne
Groll	Gutenberger	Dr. h. c. Oelrich

Auditor’s report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of DekaBank Deutsche Girozentrale, Berlin/Frankfurt/Main, for the business year from 1 January to 31 December 2010. The maintenance of the books and records and the preparation of the annual financial statements and the management report in accordance with German commercial law are the responsibility of DekaBank’s Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Frankfurt/Main, 7 March 2011

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Stefan Palm	ppa. Mirko Braun
Wirtschaftsprüfer	Wirtschaftsprüfer
(German public auditor)	(German public auditor)

Glossary

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

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

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

Assets under Management (AuM)
AuM (AMK & AMI) essentially comprise the income-relevant volume of mutual and special fund products in the Asset Management Capital Markets (AMK) and Asset Management Property (AMI) divisions, direct investments in cooperation partner funds, the share of fund-based asset management attributable to cooperation partners, third party funds and liquidity as well as the advisory/management and asset management mandates.

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

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

Collateralised loan obligation (CLO)
Securitisation whose performance depends on a portfolio of corporate loans. The CLO is a sub-form of the CDO.

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

Commercial mortgage-backed securities (CMBS)
Securities collateralised by the cash flows from a mortgage or a pool of mortgages on commercial property.

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

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

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

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

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

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

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

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

Economic result
As a central control variable, together with economic risk, the economic result forms the basis for risk/return management in the DekaBank Group and is, in principle, determined in accordance with IFRS accounting and measurement policies. As well as net income before tax, the economic result includes changes in the revaluation reserve before tax as well as the interest rate-related valuation result from original lending and issuance business, which are not recognised in the income statement under IFRS but are, however, relevant for assessing the income situation. The economic result is therefore a control variable on an accrual basis whose high level of transparency enables recipients of the external financial reporting to consider the company from the management perspective.

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

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

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

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

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

Fund assets (according to BVI)
Fund assets according to BVI comprise the fund assets of the mutual and special funds and funds-of-funds as well as the Master-KAG mandates. Direct investments in cooperation partner funds, the proportion of products for fund-based asset management attributable to cooperation partners, third party funds and liquidity as well as the advisory/management and asset management mandates are not included.

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

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

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

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

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

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

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

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

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

Net funds inflow (according to BVI)
Difference between the funds inflow from the sale of units and the outflow from the redemption of units. Unlike net sales performance, this figure does not include the funds of cooperation partners or advisory/management and asset management mandates. However, the net sales from own investments and fund-of-funds are taken into account in the net funds inflow.

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

Non-core business
Positions from credit and capital market business that are not suitable for Asset Management or to release synergies with Asset Management constitute non-core business. At the DekaBank Group, these positions have been separated internally. They are reported separately from core business and reduced while safeguarding assets at the same time.

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

Payments to the alliance partners
Payments made by the DekaBank Group to the savings banks and *Landesbanken*. These include the transfer of the front-end load from the sale of funds as well as the corresponding sales performance compensation, asset management fee and sales commission.

Primary/secondary cover potential
The primary cover potential is composed of the annual net income contribution, IFRS balance-sheet equity and atypical silent capital contributions. The secondary cover potential consists of subordinated debt capital positions that can also be used to cover primary liabilities.

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

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

Ratio of intra-alliance business
Proportion of DekaBank Group products in the total fund sales of the savings banks and *Landesbanken* as a measure of acceptance in the Sparkassen-Finanzgruppe.

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

Residential mortgage-backed securities (RMBS)
Securities collateralised by the cash flows from a mortgage or a pool of mortgages on residential property.

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

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

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

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

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

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

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

SME credit fund
Open-ended special fund with a focus on the SME credit asset class, which pools selected loans extended by savings banks to small and medium-sized companies. Units in the SME credit fund, whose legal form constitutes a sub-pool of assets of an investment plc, can exclusively be acquired by savings banks. The loan portfolio manager is Gesellschaft für Mittelstandskreditfonds der *Sparkassen-Finanzgruppe mbH*. Here, the loans deposited by loan and portfolio management specialists of the *Sparkassen-Finanzgruppe* (Savings Bank Finance Group) are independently analysed and released for purchase by the fund. The fund is managed by Deka Immobilien Investment GmbH. DekaBank acts as the custodian bank.

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

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

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

Utilisation of risk-bearing capacity
Indicator of the relationship between the group risk (business, market price, credit, shareholding, property, property fund risk and operational risk) and the cover potential.

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

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

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

Internet website

The company financial statements are available to download in English and German on the website www.dekabank.de under “Investor Relations/Reports”.

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Disclaimer

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