DekaBank

Deutsche Girozentrale

Annual financial statements 2019

Finanzgruppe

Content

Management report

At a glance

The Deka Group ended the year with an economic result of €434.0m. This was moderately down on the previous year's figure of €451.8m. Net interest income, net financial income and, in particular, net commission income exceeded the prior-year figures. Risk provisions in the lending and securities business led to a slightly negative risk provisioning result that remained below the expectations for 2019.

Due to persistent low interest rates, other operating profit was hit by a one-off effect of €–140.0m from measures to strengthen the capital for a company in the equity investment portfolio. The low interest rates also led to actuarial losses on pension provisions (€–38.6m).

Despite the one-off effect, income increased slightly to reach €1,560.6m. There was a moderate rise in expenses to €1,126.7m, particularly as a result of the higher bank levy and deposit protection reserve as well as restructuring expenses in connection with a strategic cost initiative.

As the *Wertpapierhaus* for the savings banks, the Deka Group is a key part of the *Sparkassen-Finanzgruppe* (Savings Banks Association). It continued to put its successful *Wertpapierhaus* strategy consistently into practice in the reporting year with its strategy implementation programme DekaPro. The Deka Group's net sales rose by a total of €6.3bn year-on-year to reach €18.0bn. At €11.1bn, net sales in the retail customer segment were well into positive territory again and came close to the previous year's level (€11.3bn). Equity funds, real estate funds and certificates made up a particularly significant proportion of sales. Net sales in the institutional customer segment were significantly positive again at €6.9bn. The previous year's figure of €0.5bn was affected by the termination of an individual mandate (as planned) as part of the integration of Deka Vermögensmanagement GmbH (formerly LBB INVEST GmbH).

At €313.4bn, the Deka Group's total customer assets were some 14% up on the figure for year-end 2018 (€275.9bn). In addition to sales, this was primarily attributable to the positive investment performance as against the end of the previous year. This trend was offset by distributions to investors and maturing certificates.

Deka once again proved the high quality of its products and solutions at the 2019 €uro FundAwards by Finanzen Verlag. It has a broad range of attractive and successful funds: 16 of the Deka Group's funds and four of its ETFs won a total of 40 awards. In addition, at the "Finanzennacht" (Finance Night) event in early February 2019, Deka took second place in the vote for "Fund Manager of the Year". Deka's maximum five-star rating in the Capital-Fonds-Kompass awards was confirmed again in 2019.

Thanks to its robust financial position, the Deka Group is able to fully lock on to its strategic path and lay the foundations to create lasting high value added in the years to come.

At the end of 2019, the Common Equity Tier 1 capital ratio (fully loaded) stood at 14.2%. The leverage ratio (LR, fully loaded) was 4.9%. The minimum requirement for own funds and eligible liabilities (MREL) ratio as at the reporting date stood at approximately 22%. Utilisation of risk appetite and risk capacity remained at non-critical levels at 63.9% and 50.7% respectively. The liquidity coverage ratio (LCR) was 170.6%.

Information about the Deka Group

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

Deka Group profile and strategy

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

Legal structure

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

DekaBank is a member of the deposit protection reserve of the *Landesbanken* and *Girozentralen*.

Organisational structure

The Deka Group's activities are divided into five business divisions. Asset management activities are handled by the Asset Management Securities and Asset Management Real Estate divisions. The Group's banking business is covered by the Capital Markets and Financing business divisions. The fifth business division – Asset Management Services – provides banking services for asset management. The sales units Savings Banks Sales and Institutional Customer Sales serve as the interface with sales partners and customers. The corporate centres support the business divisions and sales departments throughout the value chain.

Major companies and locations

The Deka Group's business is managed from the head office in Frankfurt/Main. The major investment management companies are also located there, such as Deka Investment GmbH, Deka Vermögensmanagement GmbH, Deka Immobilien Investment GmbH and the digital development platform bevestor. A further investment management company – WestInvest GmbH – is based in Düsseldorf. S Broker AG & Co KG has its registered office in Wiesbaden, while S-PensionsMangement GmbH (in which DekaBank has a 50% shareholding) is headquartered in Cologne.

In mid-September 2019, Deka Immobilien GmbH was merged with Deka Immobilien Investment GmbH. All activities performed by Deka Immobilien GmbH were moved to Deka Immobilien Investment GmbH. The aim of the merger was to further streamline divisional structures.

The Deka Group's most important international office is in Luxembourg. As part of the Deka Group's reorganisation in Luxembourg, the depositary that was previously part of DekaBank Deutsche Girozentrale Luxembourg S.A. (DekaBank Lux) was transferred to the existing DekaBank branch DekaBank Deutsche Girozentrale Niederlassung Luxemburg (DekaBank NL Lux) in early May 2019. The investment funds belonging to the Luxembourg-based company International Fund Management S.A. (IFM) were transferred in 2019 to Deka International S.A., Luxembourg and the Luxembourg branch of Deka Vermögens-management GmbH as part of the consolidation of the asset management companies. The next step will be the liquidation of IFM in 2020. The remaining business activities of DekaBank Lux were transferred to DekaBank NL Lux in early 2020, with the employees moving companies at the same time.

Corporate governance

The environment in which the Deka Group operates is seeing growing requirements in the interests of good and responsible corporate management and oversight. As an institution incorporated under public law, Deka is not subject to the German Corporate Governance Code. Nevertheless, the Deka Group strictly adheres to the principles of good and responsible corporate governance.

The corporate governance concept for the management and supervision of the Group ensures that boards' and committees' responsibilities are clearly defined and enables efficient decision-making processes. As a member of the *Sparkassen-Finanzgruppe*, the Deka Group is committed to the principles of subsidiarity and a focus on the greater good. This commitment forms the starting point for both the Code of Ethics and the risk culture framework. The Code of Ethics guides the actions of the boards, committees and employees. It is the basis for a corporate culture within the Deka Group that complies with the law, is open and transparent, and seeks to add value. The risk culture framework lays down binding guidelines for the responsible handling of risks in the Deka Group and for compliance among employees, managers and Board members in relation to this.

DekaBank is managed collectively by the Board of Management, which comprised six members as at the 2019 reporting date. The responsibilities of the individual members at the reporting date were as follows:

- CEO & Asset Management Securities: Michael Rüdiger
- Deputy CEO, Sales: Dr. Georg Stocker
- Risk (CRO): Manuela Better
- Finance (CFO), Treasury and Asset Management Real Estate: Dr. Matthias Danne
- Operations (COO): Daniel Kapffer
- Banking business: Martin K. Müller

Michael Rüdiger stepped down from his post at the end of 2019 at his own request and has left the Bank. At the beginning of April 2019, the Administrative Board appointed the then deputy CEO, Dr. Georg Stocker, as the new CEO. He began this role on 1 January 2020.

Birgit Dietl-Benzin was appointed as the Chief Risk Officer in early December. She is expected to take over the role from Manuela Better in mid-2020. Ms Better has not extended her contract as a member of the Board of Management and will leave Deka when her contract expires at the end of May.

The Administrative Board also agreed a resolution on new responsibilities in the Board of Management at its meeting in early December 2019.

Since the beginning of 2020, retail and institutional sales have been brought together within the remit of the CEO, Dr. Georg Stocker. Head of sales is Torsten Knapmeyer as executive manager, who previously headed the Asset Management Real Estate business division.

Asset Management Securities and Asset Management Real Estate were brought together under the remit of Dr. Matthias Danne at the start of 2020. Daniel Kapffer will take on the role of Chief Financial Officer, in addition to his responsibilities as COO, as of 1 May 2020 following the audit and approval of the 2019 annual financial statements and consolidated financial statements.

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

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

Sustainable governance and non-financial statement

Climate change is at the centre of current public debate, in Germany and beyond. The "Hamburg Declaration" at the 26th German Savings Banks Day and the discussions at that event reflected this changed environment.

DekaBank's sustainable corporate governance reflects the developments in this area since 2013 in the form of a sustainability strategy, which is part and parcel of the business strategy and is being actively implemented in the interests of customers, shareholders and employees. Deka is not only responding to the regulatory environment, but is itself committed to reinforcing its activities in this area wherever economically viable. It is ensuring that its comprehensive approach to sustainability is put into practice with sustainable banking products, sustainable HR management, sustainable banking operations and social engagement. The focus in 2019 was on further developing the range of sustainable products that Deka has been gradually introducing for savings banks and their customers since autumn 2019.

The sustainability report, which is published annually and audited by AGIMUS GmbH Umweltgutachterorganisation & Beratungsgesellschaft, contains detailed information on sustainable corporate governance at the Deka Group. It includes the Deka Group's non-financial statement pursuant to the German CSR Directive Implementation Act (*CSR-Richtlinie-Umsetzungsgesetz*). The declaration sets out, in particular, targets, measures and due diligence processes in the areas that are significant to the Group's business model. These include environmental, social and employee concerns as well as the upholding of human rights and the combating of bribery and corruption.

See also: www.deka.de/deka-group/sustainability

The annual sustainability report including the non-financial statement does not form part of the Group management report. In accordance with the statutory publication deadlines, it is published by the end of April each year on the Deka Group website (https://www.deka.de/deka-group/sustainability), where it will remain accessible for at least ten years.

The Deka Group continues to be rated as "very good" by sustainability rating agencies. In the reporting year, it received another excellent "AA" rating from MSCI ESG, for example. The ISS-ESG rating agency confirmed Deka's "C+ (Prime)" rating in 2019. Deka improved the rating from imug rating to "positive BB". Sustainalytics continues to rate Deka as a "Leader" (with 83 points).

Business model as the *Wertpapierhaus* for the savings banks

The integrated business model ensures stability and competitiveness. It is tailored to Deka's role as a *Wertpapierhaus*, which incorporates both asset management and the banking business. The solutions offered are fundamentally aligned with the needs of the savings banks and their customers.

The Deka Group puts its primary customers – German savings banks and their customers – at the heart of its activities. To ensure that its products and solutions meets the needs of these customers, it is in regular institutional dialogue with the savings banks. The products in demand from primary customers are also sold to institutional customers. These particularly include pension funds, insurance companies, corporates, public bodies, non-profit organisations, family offices and international investors. Given the Deka Group's close involvement in the savings banks sector and its focus on German institutional customers, its business activities are concentrated on the domestic market.

The core business of the *Wertpapierhaus* is to provide suitable investments in securities and real estate for private and institutional investors as well as transactions which support and complement this along the entire asset management value chain. In this regard, the Deka Group acts as finance provider, issuer, structurer, trustee and depositary (custodian bank).

In addition to investment products and services such as mutual securities funds, special funds, ETFs, real estate funds and certificates, the Deka Group also provides execution of securities trading, custody accounts, asset servicing and depositary services as part of its asset management activities. Deka's services for savings banks also include its role as a liquidity platform, its securities lending services and its support services relating to the procurement and settlement of securities and financial derivatives. All advice, support and service processes – e.g. the provision of market analyses, infrastructure services and the performance of regulatory requirements such as market conformity tests – also form part of its business model. The Deka Group thus works as a solution provider to create further value added for customers and shareholders.

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

Positioning and role within the *Sparkassen-Finanzgruppe*

DekaBank is a key part of the *Sparkassen-Finanzgruppe*. The combination of asset management and banking business, along with a clear focus on the needs of customers, brings major qualitative and quantitative benefits for the *Sparkassen-Finanzgruppe* and its customers.

The strategy implementation programme DekaPro is designed to continue putting the *Wertpapierhaus* strategy into practice in a customer-centric way. DekaPro's programme structure was aligned even more consistently with the goals of "growth" and "efficiency" in the second half of 2019.

The challenge is to ensure the efficient and thus sustainably competitive provision of services in line with growing business volume and simultaneously increasing requirements of regulatory requirements.

"DekaPro growth" combines the savings banks sales, institutional customer sales, products & services, digitalisation, and shareholdings & strategic partnerships initiatives.

A strategic cost initiative has been launched as part of "DekaPro efficiency". This focuses on optimisation and consolidation initiatives to achieve a lasting reduction in personnel and operating expenses, and is supported by reinforcing the customer-centric approach in process management. The activities involved in the cost initiative have been closely interlinked with the internal cost management processes and especially the budget planning process. Continual growth and innovation, long-term cost awareness and the ongoing evolution and reorientation of processes in line with customers' needs all require the organisation to continue developing in a substantial way.

At its meeting in early December, the Administrative Board tasked the Board of Management with examining closer cooperation with Landesbank Hessen-Thüringen (Helaba) and beginning structured talks with Helaba in early 2020.

Digitalisation strategy at the Deka Group

The digitalisation strategy is based on Deka's positioning as the *Wertpapierhaus* for the savings banks. It ensures a customer-centric evolution of the business model and constant improvements to business processes and infrastructure.

Potential solutions arising from digitalisation all along the value chain are reflected at every level of the Deka Group.

- Digitalisation of the customer interface encompasses everything that enables or facilitates digital access to securities products by savings banks and their customers, thereby benefiting the securities business across the *Sparkassen-Finanzgruppe*. Seamless, multichannel integration of branch and online sales is at the heart of this. Enhancements to the direct customer interface are implemented primarily in the "internet branch" and savings banks app in line with the savings banks' multichannel strategy. The DekaNet sales portal, which is used as an interface with advisers, is being further expanded. In addition, Deka is focusing on implementing the three-platform strategy ("internet branch" including savings banks apps (S App and S Invest), bevestor and S Broker). Deka is responsible for the bank-specific conception of the securities business in the "internet branch" of the savings banks and in the savings banks apps in terms of content. The "bevestor" digital development platform provides ideas and produces innovative digital products for securities business. bevestor is also Deka's robo-adviser solution for savings banks and their retail customers. S Broker is an online dealing service for execution-only customers of the savings banks.

- The digitalisation of products is focusing on the use of relevant technologies to improve and expand the product range. This includes completely new forms of data storage and analysis, for example. One trend for the future is the use of machine learning to analyse large volumes of data and trigger adjustments to asset allocation. Digitalisation is also shortening core value chains and leading to the emergence of new platforms and technologies for the exchange of money and assets. It is conceivable that blockchain and distributed ledger technology could considerably streamline processes for our products. We can also expect assets to become completely digitalised in future. Given its positioning as a *Wertpapierhaus*, the Deka Group will play a leading role in redesigning products, processes and IT platforms within the *Sparkassen-Finanzgruppe* and introducing blockchain technology through corresponding projects.

- Digitalising processes and infrastructure will play a major role in raising the efficiency of existing banking and business processes. RPA (Robotic Process Automation), for example, can increase the level of automation and reduce process throughput time. In addition, processes from the field of artificial intelligence are increasingly finding their way into standard business processes. Having introduced RPA, the Deka Group already works with over 60 software robots in order to improve the efficiency of quantitative processes.

New digital technologies and solutions are being tested in the Open Digital Factory (ODF), home to interdisciplinary, agile teams from IT and other departments. In this way, the ODF is helping to implement the challenges associated with the digital transformation.

Business divisions, sales units and corporate centres

There is a clear separation in the Deka Group at Board of Management level between asset management and banking. Nevertheless, the divisions, sales units and corporate centres work closely together in operational terms. They form the basis for the Deka Group's segment reporting under IFRS (International Financial Reporting Standards) 8.

Asset Management Securities business division

The Asset Management Securities business division offers high-quality asset management solutions for every market environment. Customers can choose from a wide range of products.

The product range comprises:

- actively managed mutual securities funds following fundamental and quantitative strategies in all major asset classes, along with fund savings plans based on these,
- passively managed index funds (exchange-traded funds – ETFs),
- asset management solutions such as asset management funds, fund-based asset management, wealth management, online asset management and robo-advisory investing, ETF-based asset management and sustainable asset management concepts,
- pension products (e.g. fund-based private and company pension products),
- special funds, advisory/management mandates and asset servicing solutions with an emphasis on master KVGs for institutional customers.

The product range also features bespoke and standardised securities services such as macro research for individual stocks and funds, support with designing investment strategies and processes, order desk and fund reporting services. These are also offered to external customers in some cases. The division is currently expanding its sustainability-related products and services.

The division's strategic objectives remain to expand its market position in the relevant product segments for savings bank customers and to achieve profitable growth in institutional business. Alongside product quality and competitiveness, the focus is on digitalising processes all along the value chain to further improve quality, efficiency and service.

Asset Management Real Estate business division

The Asset Management Real Estate business division provides fund products relating to real estate or real estate financing for the savings banks' customer and proprietary business. The division focuses on the office, retail, hotel and logistics segments in Europe as well as selected locations in North and South America and the Asia-Pacific region.

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

Products offered by the division include open-ended real estate mutual funds as well as special (i.e. private) funds with either an open-ended or closed-ended structure, real estate funds of funds and credit funds that invest in real estate, infrastructure or transport financing. Fund products are systematically provided with appropriate cash flow management for the purpose of lasting risk avoidance.

As part of the *Deka Immobilien-Kompass* initiative, the division offers savings banks and other institutional investors an extensive modular service package aimed at real estate fund investment. Together with in the real estate segment experienced external partners, the division offers investors the opportunity to invest in residential property funds. This enables it to tap added market potential.

The division's mission is to provide the savings banks with lasting, high-quality real estate- and real estate financing-based investment products for their customer business and proprietary investments. The aim is to maintain or expand the market position in the retail and institutional business without compromising the proven quality or stability.

Asset Management Services business division
The Asset Management Services business division provides banking and other services that complement the offerings of the asset management divisions. These range from supporting the sales departments with digital multichannel management to managing custody accounts for customers and providing custodial services for investment funds.

The Digital Multichannel Management subdivision develops and implements digital solutions for securities business in the "internet branch" of the savings banks. The savings banks are provided with a multi-platform online securities offering, including stock exchange and securities information tools. DekaNet acts as the central information and sales platform, offering automation solutions that enable processes to work more efficiently. In the retail segment, it also takes legal responsibility for the management of DekaBank custody accounts, in which Deka funds, investment solutions and certificates can be held. Its services are supplemented with those provided by S Broker, which likewise provides solutions for multichannel sales by savings banks. *S ComfortDepot* is a particularly popular solution for savings banks that want S Broker to take legal charge of their retail customer custody accounts (*Depot B*). With *DepotPlus* and *DirektDepot*, S Broker also provides the savings banks with an offering for online-oriented execution-only customers and trading-oriented clients. The digital development platform bevestor is another module of the multichannel approach and produces innovative solutions for the online securities business.

The Depositary subdivision provides a full range of depositary services to Deka Group funds and to investment management firms outside the Group. These include the regulatory control function under the German Investment Code (*Kapitalanlagesetzbuch* – KAGB), securities settlement and reporting. Depositary functions are also offered to institutional end investors. Asset Management Services and the Capital Markets division work closely together on services such as commission business, collateral management and securities lending.

The division has set itself the objective of continuing to develop the digital customer interface by offering a convincing range of services. Seamless, multichannel integration of branch and online sales for the securities business is at the heart of this. The Depositary subdivision is also aiming to improve its competitive position even further and to continue to grow its business involving mutual and special funds, third-party mandates and investment managers.

Capital Markets business division
The Capital Markets business division is the central product, solution and infrastructure provider while also acting as a service provider and driving forward innovation in the Deka Group's customer-focused capital markets business. As such, the business division provides the link between customers and the capital markets. It offers investment solutions to both retail and institutional customers and helps them to put their asset and risk management decisions into practice.

With its tailored range of services relating to securities repurchase transactions, securities lending and foreign exchange trading, the business division provides the central securities and collateral platform for the savings bank association. In addition to its function as a commission agent for all relevant asset classes, it serves as a centre of competence for trading and structuring capital market products as well as for DekaBank's issuance business. Institutional customers are provided with clearing services and support with the efficient fulfilment of regulatory requirements. The division is also responsible for the Deka Group's strategic investments. Strategic investments comprise the securities in the Deka Group's proprietary portfolio that are not held for liquidity management purposes.

Together with other market participants, the division launched the finledger platform in 2019 for processing digital promissory note loans with the help of distributed ledger technology. finledger is a blockchain-based platform for processing promissory note loans. The main product is the Deka Easy Access (DEA) platform, which helps savings banks to manage their proprietary portfolios effectively. By the end of 2019, 240 savings banks already had access to the information, management and trading dashboard.

The activities of the Capital Markets division are divided into three subdivisions as follows:

- The Collateral Trading & Currency subdivision brings together securities lending products, securities repurchase transactions and customer-oriented currency trading.
- The Trading & Structuring subdivision is the Deka Group's centre of competence for trading and structuring capital market products (cash instruments, bonds and shares), for derivatives in all asset classes and for the issuing business (debt securities and certificates). The subdivision also looks after strategic investments.
- The Commission Business subdivision executes trades in securities and exchange-traded derivatives in its own name on behalf of third parties.

As a product, solution and infrastructure provider, the Capital Markets division provides savings banks and institutional customers with access to capital markets and (central) counterparties. Customers benefit from synergy effects and economies of scale. The business division is responding to regulatory requirements by optimising the business portfolio on an ongoing basis and by efficiently managing regulatory capital requirements.

Financing business division

The Financing business division focuses on specialised and real estate financing – segments in which it has the relevant market knowledge and long-standing expertise.

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

The Specialised Financing subdivision concentrates on financing energy, grid, utilities and public infrastructure projects (infrastructure financing), on aircraft and ship financing (transport financing), on financing covered by export credit agencies (ECAs), and on financing of the public sector. It also has a leading position in the funding of German savings banks across all maturity ranges. Loans that were made before the credit risk strategy was revised in 2010 are combined in a legacy portfolio that does not conform to the current strategy. These continue to be wound down while safeguarding assets.

The Real Estate Financing subdivision provides lending for commercial real estate. It focuses on marketable properties in the office, retail, hotel and logistics segments in liquid markets in Europe and North America.

In accordance with the sustainability strategy, the Financing business division is supporting the Deka Group's aim of attracting more financing business that focuses on sustainability aspects. This type of financing and investment contributes to fulfilling the United Nations Sustainable Development Goals and is part and parcel of the sustainable corporate governance of the Deka Group.

The division aims to generate sufficient new business in the defined core segments and to broaden the product offering in existing asset classes as well as to achieve a regional expansion of Deka's financing business. It also aims to expand Deka's position as a quality leader in liquid markets and as a sought-after financing partner for the most important international real estate investors. In addition, DekaBank acts as a dependable refinancing partner for the savings banks.

Sales

Savings Banks Sales & Marketing

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

There is a clear division of tasks in market cultivation: The savings banks have sole responsibility for directly contacting, advising and serving retail customers. The Deka Group provides them with the products and services they need to do so. Deka therefore also aims its marketing activities directly at end customers so as to nurture their active demand for savings banks' services. Sales Management, Marketing & Private Banking systematically analyses the needs of customers and savings banks as well as competitor and market developments. Based on its findings, it develops forward-looking measures to support sales and marketing at the savings banks. Private Banking, Product Management & Product Sales look after all matters throughout the product life cycle in relation to the funds, certificates, asset management solutions, private and occupational pension plans, and private banking services on offer. Among other things, Private Banking offers solutions and services for asset optimisation, generation management, protection against life's risks, pensions and sustainable investment. The *Sparkassen-Finanzmanager* from Deka Private Banking can draw upon support on any topic when advising private banking customers, entrepreneurs (private and business assets) and institutions.

To ensure nationwide support, Sales in Germany is divided into six sales regions. Sales directors maintain regular dialogue on markets and customers with the savings banks and associations. Deka also provides the savings banks with sales associates and other specialists as the topic or occasion requires to assist at local level with marketing and sales activities and offer training and coaching. In the private banking and corporate customer segment, heads of private banking and corporate customers at the savings banks can call directly upon the specialist Deka sales managers Private Banking.

In early 2019, Deka added the Deka-*Wertpapierbaukasten*, its modular securities concept, to the support services it provides. The *Wertpapierbaukasten* is a web-based application that helps sales directors to better support the savings banks, allowing the banks to efficiently expand their securities business in a way that makes full use of their potential. Deka has also been working with S Finanz Informatik to continuously enhance securities reporting for the savings banks. Additional reports and sales analyses are also being provided.

Products and solutions for retail customers are marketed under the Deka Investments and Deka Private Banking sales brands.

Institutional Customer Sales

The Institutional Customer Sales unit supports the savings banks with proprietary business and serves institutional investors in Germany and other countries. Customer advisers adopt a comprehensive approach that covers all products and services offered by the Deka Group across all business divisions. In addition, Deka provides institutional customers with important functions such as reporting and order placement through online channels.

The Institutional Customer Sales team is available to savings banks and other banks as a management partner and adviser. It develops immediately viable solutions for proprietary business (*Depot A*) and overall bank management. This includes methods and applications for interest rate book management and asset allocation. The solutions are built on comprehensive analyses of the earnings and risk situation.

Other important customer groups include pension funds, insurance companies, corporates, public bodies, non-profit organisations, family offices and international investors.

The Deka Group brings together all its solution expertise for institutional customers under the Deka Institutionell brand.

Corporate Centres

The corporate centres provide support to our sales teams and business divisions. As at the reporting date, these comprised the Corporate Office & Communications, Internal Audit, Legal, Compliance, Corporate Development, Human Resources, Organisational Development, Risk Control Capital Market Funds, Risk Control, Finance, IT, Business Services, Credit Risk Office, and Treasury corporate centres.

Influencing factors and market position

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

With fund assets (according to the BVI, the German Investment Funds Association, as at 31 December 2019) of €134.4bn and a market share of 13.4%, Deka is the fourth largest provider of mutual securities funds in Germany. It is Germany's second-placed provider of mutual property funds with fund assets (according to the BVI, as at 31 December 2019) of €33.7bn and a market share of 30.9%.

At the 2019 €uro FundAwards by Finanzen Verlag, Deka once again demonstrated that it has a broad range of attractive and successful funds: 16 of the Deka Group's funds and four of its ETFs won a total of 40 awards. At the "Finanzennacht" (Finance Night) event in early February 2019, Deka took second place in the vote for "Fund Manager of the Year". After the top spot in the previous year, this placement was another major success for Deka.

In the Capital-Fonds-Kompass 2019 awards organised by the business magazine Capital, the fund analysis firm Scope and the service experts at Tetralog Systems Analysis, Deka Investment GmbH secured a five-star rating again.

At the 2019 Scope Alternative Investment Awards in late November, Deka Immobilien Investment GmbH was honoured as Best Asset Manager in the Retail Real Estate Europe category.

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

Real estate financing focuses on properties in Europe and selected locations in North America. The specialist financing business has an international orientation and is rounded off by its services for German savings banks. Having worked for decades in every segment, DekaBank has extensive market knowledge and experience at its disposal. In the savings bank sector, DekaBank is market leader in the segment for the financing of German federal states.

The Deka Group's certificates are sold through the German savings banks. With the issue volume rising slightly during the reporting year, the Deka Group achieved a 21.4% share of the overall market for derivative securities in Germany at the end of the third quarter of 2019, making it the market leader. Deka is also the market leader in investment certificates, reverse convertible bonds and structured bonds. It has established itself as the second-biggest provider of express certificates.

The Scope Zertifikate Awards 2020 were presented in Frankfurt in late November 2019. DekaBank was nominated in the "Primary Market" category and impressed the expert jury, who named it best issuer.

Deka also achieved the top score of AAA (ZMR) in the Scope Zertifikate Management Ratings for the third time in a row. This reaffirmed its quality and expertise as an issuer of investment certificates in the primary market.

DekaBank was also voted best certificates issuer of 2019/2020 by the magazine "Der ZertifikateBerater" together with n-tv, Börse Frankfurt Zertifikate and the Stuttgart Stock Exchange. Among the 26 competing issuers, it took second place in the primary market products, capital protection certificates and "Certificate Issuer of the Year" categories.

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

See also: Economic report: page 15, ff.

Risk and profit management at the Deka Group

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

The Deka Group has a consistent system of targets. Success is measured against three outcomes: sustainably increasing enterprise value, generating value added for the *Sparkassen-Finanzgruppe* and corporate growth.

Financial and non-financial performance indicators are used in the Bank's management. These can be divided into key management indicators and other relevant indicators. The Board of Management and management committees that support the Board in its management role are informed through comprehensive reporting whether the strategic and operational measures used to manage the Deka Group are successful and whether the Deka Group risk/reward ratio is within the target range.

Financial performance indicators

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

The economic result is the key in-house management indicator within the meaning of the requirements of IFRS 8 (Operating Segments) and is based on the figures according to IFRS accounting standards. The economic result includes the total of profit or loss before tax, plus or minus changes in the revaluation reserve (before tax) and the interest rate and currency-related valuation result from financial instruments recognised at amortised cost, which are not recognised in the income statement under IFRS but are relevant for assessing financial performance. The interest expense on AT1 bonds (Additional Tier 1 capital), which is recognised directly in equity, is also included in the economic result. Furthermore, the economic result takes into account contingent future charges where the likelihood of occurrence is considered to be "possible" but for which a provision cannot be recorded under IFRS due to the lack of sufficient concrete evidence. The economic result is therefore a control variable on an accrual basis with a high level of transparency that enables recipients of the external financial reporting to consider the company from the management perspective.

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

See also: Capital adequacy: page 57, ff.

The Internal Capital Adequacy Assessment Process (ICAAP) is based on two perspectives. In the normative perspective, the Common Equity Tier 1 capital ratio is the key management indicator. The Common Equity Tier 1 capital ratio is defined as the ratio of Common Equity Tier 1 capital to risk-weighted assets (RWAs) for all relevant credit, market and operational risk positions plus the credit valuation adjustment (CVA) risk. Other relevant indicators comprise own funds, risk-weighted assets and the leverage ratio exposure, along with the corresponding capital ratios, the MREL ratio and utilisation of the large exposure limit. Risk-weighted assets are managed in line with the Deka Group's strategy, the targeted balance sheet structure and the capital market environment.

As the key management indicator in the economic perspective, risk appetite is defined as the overall aggregate risk for individual risk types that the Deka Group is willing to accept in order to achieve its strategic objectives and business plan. It forms the basis for allocating risk capital. The monthly risk-bearing capacity analysis involves comparing the Deka Group's risk appetite and allocated risk capital with total risk determined across all risk types that have an impact on profit or loss. This makes it possible to establish whether risk limits have been adhered to at Group and divisional level.

See also: Liquidity adequacy: page 61, ff.

The Internal Liquidity Adequacy Assessment Process (ILAAP) is also based on two perspectives. From the normative perspective, the liquidity coverage ratio (LCR) serves as the relevant indicator. It will be joined from June 2021 by the net stable funding ratio (NSFR). The funding matrix (FM) has been defined by the Board of Management as the risk measure to be used as an indicator in the quantification, management and monitoring of liquidity risk in the economic perspective.

Non-financial performance indicators

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

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

The key management indicator total customer assets comprises the income-relevant volume of mutual and special fund products (including ETFs), direct investments in the funds of partner organisations, the portion of fund-based asset management activities attributable to partner organisations, third-party funds and liquidity, advisory/management mandates, master funds under third-party management and certificates. Total customer assets have a significant impact on the level of net commission income.

See also: Business development and profit performance in the Deka Group: page 20, ff.

The performance indicators are reported by customer segment and product category at Deka Group level and for the Asset Management Securities and Asset Management Real Estate business divisions.

Economic report

Economic environment

Macroeconomic conditions

The growth rate of the world economy fell by 0.9 percentage points in 2019 to 2.9%. The sluggishness was attributable to the industrial sector: industrial production is stagnating worldwide, and countries with a strong industrial base, such as Germany, have entered an industrial recession.

Geopolitical risks weighed on the economy in 2019. The ongoing trade dispute between the world's two largest economies (the US and China, which together account for some 34% of global GDP) resulted in damaging tariffs and above all in uncertainty about the future world economic order. This had a negative impact on global production chains and sales markets. Industrial companies with global operations responded with a significant cut in investment. Another reason for the investment restraint could be found in China, where high levels of indebtedness in relation to infrastructure projects led the state to take a more cautious approach. Meanwhile, the Brexit process resulted in lower orders from UK companies.

There was no majority in the British parliament to pass an EU withdrawal agreement by 31 March 2019 under Prime Minister Theresa May or by 31 October 2019 under Prime Minister Boris Johnson. This meant that companies were repeatedly hit by the risk of a no-deal ("hard") Brexit. The uncertainty also hit economic growth. A decisive breakthrough did not come until late in the year. New elections on 12 December 2019 resulted in an absolute majority for the party of the British premier, Boris Johnson. This cleared the way for Johnson to take the country out of the EU on 31 January 2020.

In terms of monetary policy, market participants expected an initial interest rate hike by the ECB in 2019. However, the higher inflation rates anticipated by the ECB were not forthcoming, and the growth outlook for the eurozone deteriorated. From mid-year onwards, market expectations then shifted towards a further loosening of ECB monetary policy. In connection with the introduction of a tiered deposit rate, market participants also saw a possibility of an extreme cut in key rates. In the end, the ECB decided at its September meeting on a package of measures involving a reduction in the deposit rate to –0.50% and net asset purchases of €20bn per month as well as further long-term refinancing operations. The heart of the package of measures, however, was stricter forward guidance in respect of future key interest rates. This persuaded investors that a very gradual normalisation of monetary policy can be expected over the next few years. The handover of the ECB presidency from Mario Draghi to Christine Lagarde on 1 November had no impact on market expectations that monetary policy will remain unchanged for a long time to come.

Economic environment for asset management

Private household wealth in Germany increased in 2019. Households increased their financial assets to €6,302bn (30 September 2019), up €298bn from the end of 2018, due to high new inflows and growth in value. The high level of geopolitical uncertainty continued to drive households towards liquid assets such as cash and demand deposits. Gains in the value of equities and investment funds also contributed to increased wealth and lifted the share of these investments in the total financial assets of private households to 21% (up two percentage points year-on-year).

The cautious attitude of investors was reflected in the investment statistics of the German Investment Funds Association BVI. Net assets in open-ended mutual funds rose to €1,115.7bn by year-end 2019 (previous year: €973.5bn). At €17.5bn, net inflows fell short of the prior-year figure again (€22.5bn). Relatively low-risk mixed funds were in particular demand, attracting net inflows of €10.5bn in financial year 2019. However, this was a significant reduction on the previous year's net inflows of €21.7bn. Real estate funds experienced an equally significant increase. At €10.7bn (previous year: €6.4bn), net inflows hit a five-year high. Bond funds had to accept significant net outflows (€–3.7bn) again as in the previous year. Net assets in open-ended special funds rose significantly to €1,874.9bn by year-end 2019 (previous year: €1,619.5bn), while net inflows of €102.7bn slightly exceeded the prior-year figure of €95.5bn.

Expansionary monetary policy all around the world and negative money market rates in the eurozone led to increased demand for those securities still offering the prospect of positive returns. Concerns about global growth and confusing news about the global trade dispute resulted in no more than temporary setbacks in equities and corporate bonds. Investors' risk appetite increased further towards the end of the year. This was due to the first tangible results in the trade negotiations between the US and China and the substantial election victory for Boris Johnson in the UK, which reduced the likelihood of a no-deal Brexit. Many share indices subsequently reached new historic highs. Conversely, yields on long-dated German government bonds and US Treasuries saw little upward movement. Corporate bond prices also developed very positively, benefiting especially strongly from the ECB's new asset purchase programme announced in September 2019.

Real estate funds continued to offer an attractive risk/reward ratio in the low interest rate environment. Given high real estate prices and limited availability of suitable properties, however, the investment opportunities open to real estate funds remained limited. This restricted their ability to attract new investor funds, particularly given that it was not possible to generate positive margins from liquidity investments. Demand for office space remained high despite the economic slowdown in some countries. At the same time, supply in most locations was limited due to the lack of sufficient properties. Vacancy rates declined further in 2019, leading to continued rental growth. Yields saw further declines and fell sharply in some European locations. The global transaction volume in 2019 exceeded the prior-year figure. The North America and Asia/Pacific regions recorded higher volumes, while Europe's investment turnover fell.

Economic environment for the banking business

The pivot by the two major central banks – the Federal Reserve (Fed) and ECB – to an even looser monetary policy led to rising share and bond prices. Yields on short- and medium-term German government bonds fell well into negative territory, and even 30-year bunds traded with negative yields for a time. Investors therefore increasingly sought out riskier forms of investment, while real estate prices also rose significantly due to the historically low cost of financing. For banks and savings banks, the adverse side-effects of the low interest rates became ever more apparent. Institutions increasingly contemplated passing negative deposit rates on to their customers.

High market liquidity and the ECB's new asset purchase programme in the final quarter influenced the short-term money market business. The ECB's newly introduced tiering and the expansion of its securities lending programmes also made their mark on the capital market. As expected, market conditions put the margins achievable in the Commission Business unit under pressure. Sales of structured issues were encouraging again with another increase in market share. In the OTC derivatives market, the temporary uncertainty about the recognition of LCH as the central clearer at the end of the year did not have any impact, as DekaBank proactively moved a large part of its derivatives book to Eurex. A stable market infrastructure for derivatives trading and the related infrastructure services of the savings banks was ensured at all times.

There were no significant year-on-year changes in the market environment for the financing business. The overall conditions for aircraft and infrastructure financing were stable on the whole. A slight reduction in structural excess capacity is emerging on the shipping markets. Potential in terms of margins remained limited, however, as strong competition from banks and institutional investors for attractive credit assets meant that borrowers could continue to negotiate favourable terms. With a large number of competitors from the banking and non-banking sectors alike, the market for real estate financing remained extremely competitive in 2019. With the exception of the markets for retail properties, the real estate markets in the relevant regions for DekaBank, such as Europe, the US and Canada, developed positively and offered attractive financing opportunities.

Regulatory environment

Changes to regulations, both those already initiated and those in the pipeline, once again influenced the business model and profitability of the Deka Group during the 2019 financial year. Higher capital requirements for banks could emerge from the results of the annual Supervisory Review and Evaluation Process (SREP), for example in the context of the supervisory review of the internal models under Pillar 1 of the Basel capital framework. Implementing the regulations described, which comprise the key regulatory issues for the Deka Group, makes considerable demands on costs and resources.

Regulatory topics

In the EU, the reform of Capital Requirements Regulation II (CRR II) and Capital Requirements Directive V (CRD V) was completed in the first half of 2019. The final legislative texts were published in June 2019. The reform of the CRR primarily implements the proposals put forward by the Basel Committee on Banking Supervision (BCBS) on the leverage ratio (LR), the net stable funding ratio (NSFR), the standardised approach for counterparty credit risk exposure (SA-CCR), the revised requirements that apply to large exposures, the trading book and the treatment of credit risks resulting from guarantee funds and Riester products. These regulations will generally be applied for the first time in June 2021.

The Fundamental Review of the Trading Book (FRTB) contains amended rules on market risk, which are likely to lead to an increase in risk-weighted assets (RWAs) when exclusively using the standardised approach in future. On 14 January 2019, the Basel Committee published the final standard with slightly reduced risk weightings in the standardised approach compared with under the 2016 Basel standard. This will reduce the increase in risk-weighted assets overall. The European Commission adopted the final Delegated Regulation in mid-December 2019 and integrated the changes to the standardised approach under the 2019 Basel standard into CRR II. The reporting requirements for the FRTB standardised approach are expected to apply from March 2021. The new capital requirements will only apply from a later date.

The European capital and liquidity requirements were revised to tighten up the rules on large exposures, forcing more restrictive handling of large exposure risks. The large exposure limit will no longer be set according to the level of total own funds but instead according to the level of Tier 1 capital. The calculation of the exposure values and the provisions governing the application of credit risk mitigation techniques have also been revised. In applying credit risk mitigation techniques, the collateral provider or issuer of the financial collateral is required to take the collateralised exposure into account in their large exposure limit when collateral is accepted. This could have an impact on repo lending business activities. First-time application is scheduled for the end of June 2021.

The provisions of the Basel III regulations finalised in December 2017 (also known as Basel IV), which contain, among other things, rules on the output floor and Credit Risk Standardised Approach (CRSA), are not included in CRR II. The Basel Committee intends these rules to be introduced as from 1 January 2022. More specifically, the gradual introduction of an output floor is planned. This will stand at 50% upon introduction at the beginning of 2022 and increase to its final level of 72.5% in 2027. The output floor will limit the benefit of internal models as compared to the standardised approach. Deka currently uses the IRB approach for the majority of its lending. For the general components of interest rate and share price risk, it uses an up-to-date internal model for market price risk. It will therefore be particularly affected by the new output floor rules, which may lead to a significant rise in RWAs going forward. In addition, new rules have been agreed on calculating RWAs for CVA risk and operational risk, which are also to be applied starting in 2022. These may also increase RWAs. Initial draft legislation for implementation at EU level is planned for 2020.

Alongside CRR II, the European Council reached an agreement on changes to the EU's Bank Recovery and Resolution Directive (BRRD II) and Single Resolution Mechanism Regulation (SRMR II). These primarily concern the translation of international standards on total loss-absorbing capacity (TLAC) into European law and their harmonisation with the minimum requirements for own funds and eligible liabilities for loss absorption and recapitalisation in the event of resolution (MREL). Within this context, the trilogue negotiation partners reached an agreement on the treatment of MREL-eligible liabilities issued prior to the change in legislation until maturity. As the Single Supervisory Mechanism (SSM) applies to the Deka Group, DekaBank again supported the work on a resolution plan for the Deka Group during 2019, which will ultimately be the basis for determining MREL.

Between February and October 2019, the ECB conducted a sensitivity analysis on liquidity risk as part of a stress test on major institutions, including DekaBank. The results demonstrate DekaBank's overall sufficient liquidity position overall.

A further stress test by the European Banking Authority (EBA) is planned for 2020, which, as in 2018, will cover all risk types. Publication of the results is scheduled for July 2020. DekaBank is not among the banks taking part in the EBA stress test. As a bank subject to ECB supervision, however, it will be subjected to a stress test by the ECB in 2020 which will be carried out in accordance with EBA methodology. The results of the ECB stress test feed into the calculation of the Supervisory Review and Evaluation Process (SREP) ratios.

In March 2018, the ECB published an addendum to the ECB Guidance to banks on non-performing loans. This detailed its expectations regarding the level of prudential provisioning for all loans classified as non-performing exposures (NPEs) for the first time after 1 April 2018. The expectations set out in the document form the basis for an annual supervisory dialogue. Specifically, the addendum provides for full risk coverage for unsecured (secured) NPEs after two (seven) years from the time of NPE classification. In the event of a shortfall in cover, the banks are required either to make a deduction from their Common Equity Tier 1 capital on their own initiative or to provide the supervisory authorities with adequate justification of their divergence from the prudential provisioning expectations. If the ECB does not accept the justification, this could result in higher capital requirements. The amendment to the CRR concerning the minimum loss cover for non-performing exposures was published in the EU Official Journal on 25 April 2019, thereby entering into force. This provides for a mandatory deduction from the Common Equity Tier 1 capital if the actual risk provisions set up by the institutions fall short of the regulatory minimum requirements for the level of risk provisioning. In August 2019, the ECB then amended the addendum to the ECB Guidance to banks on non-performing loans in relation to the minimum loss coverage ratios and clearly defined the interplay between the ECB Guidance and the CRR when it comes to application. The amendments do not affect the timetable or the ability to justify deviation of actual risk provisioning from the minimum loss cover for non-performing exposures.

In October 2017, the Basel Committee published guidelines on identification and measurement of step-in risk. Step-in risk is the risk that institutions will provide financial support in excess of contractual obligations to non-consolidated companies facing financial difficulties. The guidelines set out general expectations on how these risks should be handled. The Basel Committee expects the requirements set out in the guidelines to be implemented in 2020. However, they have not yet been codified into European law. DekaBank began in 2019 to identify relevant applications and design suitable processes for identifying and quantifying risks. The design and initial implementation of a systematic process to identify, measure and report on step-in risks in the Deka Group is planned for 2020.

In March 2018, the European Commission published its sustainability expectations in a ten-point action plan: Financing Sustainable Growth. The document calls for sustainable investment as a prerequisite for sustainable and inclusive growth and aims to overcome companies' financial risks stemming from climate change, resource scarcity, environmental degradation and social issues. In addition, BaFin published a Guidance Notice on Dealing with Sustainability Risks in December 2019. In this context, DekaBank has laid the basis in its business strategy for the appropriate ongoing development of sustainability-related activities in the Deka Group. One initiative aims, in the second half of 2020, to provide the savings banks with a package of products and services relating to sales of securities. This will serve to implement the integration of sustainability aspects on the basis of MiFID II. In autumn 2019, DekaBank presented the savings banks with its sustainability 2020 product map. This provided them with sustainable securities products for their customers, starting in the reporting year. Another initiative aims to anticipate the sustainability-related requirements of national and international supervisory bodies that will apply to the risk management systems of financial intermediaries. In particular, this will involve assessing physical and transitory risks as a component of existing risk types and evaluating their reputational impact. For 2020, the Deka Group aims to establish systematic management of sustainability risks in its own rule book.

Product- and service-related regulatory proposals

The EU Directive on deposit guarantee schemes (Deposit Guarantee Scheme Directive) was adopted at the end of 2018 as a component of the European Banking Union. It is planned to establish a common European Deposit Insurance Scheme (EDIS), harmonising the requirements concerning national deposit guarantee schemes at European level. The European institutions are working and coordinating with each other on the exact shape of this and the future timetable.

Tax policy developments

At its meeting on 13 March 2018, the EU's Economic and Financial Affairs Council (ECOFIN) reached a political agreement on the planned disclosure regime for cross-border tax arrangements. The related EU administrative cooperation directive 2011/16/EU (DAC 6 Directive) entered into force on 25 June 2018. This obligates intermediaries and taxpayers (including banks and investment management companies) to report information on certain cross-border arrangements to the tax authorities. The first reports are due from 1 July 2020. Tax arrangements for the period after 24 June 2018 and prior to 1 July 2020 must be reported by no later than 31 August 2020. DekaBank conducted an impact analysis in the second and third quarter of 2019 using the DAC 6 Directive and the draft German legislation based on it. Implementation began in parallel with this in the fourth quarter of 2019 and is due to be completed by no later than 30 June 2020. A particular challenge is that few member states had yet transposed the DAC 6 Directive into national law as of 2019. The Directive also contains many undefined legal concepts that require interpretation. In Germany, the relevant legislation – the *Gesetz zur Einführung einer Pflicht zur Mitteilung grenzüberschreitender Steuergestaltungen* – was agreed in mid-December 2019 and approved by the upper house of the German parliament. Publication of an explanatory document from the Federal Ministry of Finance (BMF), which is expected to include a white list of products and services judged to be unproblematic, is not anticipated before June 2020.

Business development and profit performance in the Deka Group

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

The Deka Group ended the year with an economic result of €434.0m. This was moderately below the previous year's figure of €451.8m.

Net interest income, net financial income and, in particular, net commission income exceeded the prior-year figures. Risk provisions in the lending and securities business led to a slightly negative risk provisioning result that remained below the expectations for 2019. Due to persistent low interest rates, other operating profit was hit by a one-off effect of €–140.0m from measures to strengthen the capital for a company in the equity investment portfolio. The low interest rates also led to actuarial losses on pension provisions (€–38.6m). Restructuring expenses (€41.0m) were primarily incurred as part of the strategic cost initiative.

The Deka Group increased net sales by a total of €6.3bn to €18.0bn year-on-year in the reporting period.

At €11.1bn, net sales in the retail customer segment were well into positive territory again and came close to the previous year's level (€11.3bn). In the fund business (€5.9bn), equity funds (€3.2bn) and real estate funds (€2.1bn) made up a particularly significant proportion of sales. Sales of certificates to retail customers totalled €5.3bn.

Net sales in the institutional customer segment were significantly positive again at €6.9bn. The previous year's figure of €0.5bn was affected by the termination of an individual mandate (as planned) as part of the integration of Deka Vermögensmanagement GmbH (formerly LBB-INVEST GmbH). The institutional investment fund business accounted for a large portion (€5.6bn) of sales. Certificate sales to institutional customers came to €1.3bn.

In 2019, investors signed up to around 620,000 (net figure) new Deka investment savings plans, meaning that Deka now manages over 5 million contracts.

Deka Group net sales *in €m (Fig. 1)*

	2019	2018
Net sales	**18,040**	**11,773**
by customer segment		
Retail customers	11,117	11,296
Institutional customers	6,923	477
by product category		
Mutual funds and fund-based asset management	4,084	4,547
Special funds and mandates	8,637	–1,418
Certificates	6,567	8,043
ETFs	–1,248	601

At €313.4bn, the Deka Group's total customer assets were some 14% up on the figure for year-end 2018 (€275.9bn). In addition to sales, this was primarily attributable to the positive investment performance as against the end of the previous year. This trend was offset by distributions to investors and maturing certificates.

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

	31 Dec 2019	31 Dec 2018	Change	
Total customer assets	**313,412**	**275,878**	37,534	13.6%
by customer segment				
Retail customers	158,749	137,169	21,580	15.7%
Institutional customers	154,662	138,709	15,953	11.5%
by product category				
Mutual funds and fund-based asset management	154,347	137,249	17,098	12.5%
Special funds and mandates	127,360	109,585	17,775	16.2%
Certificates	22,670	20,443	2,227	10.9%
ETFs	9,035	8,602	433	5.0%

See also: Capital adequacy: page 57, ff.

The Common Equity Tier 1 capital ratio (fully loaded) stood at 14.2% at the end of 2019 and fell as expected compared to the previous year (15.4%). While Common Equity Tier 1 capital increased to €4,579m (previous year: €4,460m) due to retention of parts of the annual profit from 2018 and other effects from the 2018 annual financial statements, risk weighted assets (RWAs) increased by 11.1% to €32,229m (previous year: €29,021m).

At 4.9% (previous year: 4.6%), the leverage ratio (fully loaded) at year-end 2019 was above the minimum ratio of 3.0% to be observed from June 2021.

European banks must hold a minimum volume of own funds and MREL-eligible liabilities in order to provide sufficient loss coverage and recapitalisation in the event of resolution. The balance sheet-based approach calculates the ratio of own funds and MREL-eligible liabilities to total liabilities and own funds (TLOF). At the reporting date, the MREL ratio stood at approximately 22%.

See also: Liquidity adequacy: page 61, ff.

The liquidity coverage ratio (LCR) was 170.6% at year-end 2019 (previous year: 149.8%), considerably above the minimum requirement of 100%.

Risk appetite utilisation (63.9%) fell compared to the previous year (67.4%), primarily due to the development of counterparty and market price risk. At 50.7%, utilisation of risk capacity was also, as expected, noticeably above the level seen at the end of 2018 (42.1%). Economic risk-bearing capacity was at a non-critical level overall as at the 2019 balance sheet date.

Comparison of forecast and actual growth

Expectations regarding the Deka Group’s key performance indicators in 2019, as set out in the forecast report of the 2018 Group management report and updated in the 2019 interim financial report, were largely met. Due to persistent low interest rates, other operating profit was hit by a one-off effect of €–140.0m from measures to strengthen the capital for a company in the equity investment portfolio. At €434.0m, the economic result fell moderately short of expectations.

Development of key performance indicators in the Deka Group *(Fig. 3)*

		31 Dec 2018	Forecast 2019 in the Annual Report 2018	Forecast 2019 in the Interim Report 2019	31 Dec 2019	Change	
Economic result	€m	451.8	Stable to the previous year	Stable to the previous year	434.0	–17.8	–3.9%
Total customer assets	€bn	275.9	Noticeable over the previous year	Noticeable over the previous year	313.4	37.5	13.6%
Net sales	€bn	11.8	Noticeable over the previous year	Noticeable over the previous year	18.0	6.2	52.5%
Common Equity Tier 1 capital ratio	%	15.4	Over 13%	Over 13%	14.2	–1.2%-points	
Utilisation of risk capacity	%	42.1	Noticeable over the previous year	Noticeable over the previous year	50.7	8.6%-points	

Profit performance of the DekaBank

DekaBank's ordinary income, i.e. the total of net income from interest and equity investments, commission income, trading profit and other operating income, amounted to €1,410m (previous year: €1,435m). At €554m, net income from interest and equity investments was down by €55m year-on-year. Net interest income was €146m (previous year: €211m). The drop was due primarily to interest rate derivatives held for hedging purposes. Net income from equity investments came to €409m and was slightly above the previous year's figure (€397m). Net commission income rose to €272m, largely due to higher fees from the safe custody of securities due to the transfer of the depositary from Deka-Bank Luxembourg S.A. to the branch of DekaBank Deutsche Girozentrale (previous year: €235m). Trading profit came to €196m (previous year: €256m). Other operating profit was €174m (previous year: €255m). Given the sustained low interest rates, the change was due primarily to a one-off effect from measures to strengthen the capital for a company in the equity investment portfolios, as well as restructuring expenses related primarily to a strategic cost initiative.

DekaBank's operating expenses – the sum of personnel expenses, other administrative expenses including depreciation and amortisation, and other operating expenses – rose to €1,056m in the year under review (previous year: €817m). Personnel expenses increased due, among other factors, to additions to provisions for pensions and to wage and salary rises under collective agreements. Other administrative expenses including depreciation and amortisation came to €446m (previous year: €387m). The increase was due, in particular, to the higher bank levy and the increased annual fee for the security reserve of the Landesbanken and Girozentralen, as well as to higher project-related expenses for DekaPro initiatives. Expenses were also increased by the amortisation of acquired goodwill resulting from the transfer of the depositary to the branch of DekaBank Deutsche Girozentrale. All in all, this produced a result before risk provisioning of €354m (previous year: €618m). The overall valuation result from the lending, securities and investment business for the past financial year was €– 24m (previous year: €– 58m). The drop was due to lower write-downs on securities in the liquidity reserve in a year-on-year comparison. After deducting income taxes and making an allocation to the fund for general banking risks to strengthen its core capital, DekaBank achieved an operating result after tax of €101m (previous year: €114m).

DekaBank performance *in €m (Fig. 4)*

	2019	2018	Change	
Net interest income and net income from equity investments	554	609	–55	–9.0%
Net commission income	272	235	37	15.7%
Trading result	196	256	–60	–23.6%
General administrative expenses	842	738	104	14.1%
Risk provision/valuation	–24	–58	34	58.3%
Income taxes	152	217	–65	–29.8%
Net income after tax	**101**	**114**	–13	–11.0%

Business development by business division

Business development in the Asset Management Securities business division

At €416.7m, the economic result for the Asset Management Securities division was up on the previous year's figure of €230.5m due to positive market developments. Net sales rose sharply year-on-year, with institutional customer business in particular gaining ground. Thanks in part to a positive investment performance, total customer assets increased to €248.5bn (previous year: €217.3bn).

Net sales and total customer assets

At €8.5bn, net sales were considerably up on the figure for 2018 (€1.1bn). Net sales of mutual securities funds reached €4.2bn (previous year: €2.0bn). Sales of equity funds were especially positive, while bond funds were in less demand, as in the previous year. Investor caution was also evident in fund-based asset management. Here, sales were substantially down on the prior-year figure at €–2.3bn. With net sales of €4.8bn, institutional customer business outperformed the previous year (€–2.8bn). In 2018, there was a negative one-off effect from the departure of a major master funds customer. Net sales of special funds and mandates stood at €8.0bn (previous year: €–2.1bn). Net inflows were recorded for master funds, securities special funds and advisory/management mandates. Net ETF sales fell to €–1.2bn (previous year: €0.6bn), with both ETF equity and ETF bond funds losing ground.

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

	2019	2018
Net sales	**8,545**	**1,107**
by customer segment		
Retail customers	3,734	3,912
Institutional customers	4,811	–2,806
by product category		
Mutual funds and fund-based asset management	1,821	2,555
ETFs	–1,248	601
Special funds and mandates	7,972	–2,050

The division's total customer assets increased by €31.2bn to €248.5bn as at year-end 2019. In addition to net sales, this was largely attributable to a highly positive investment performance over the course of the year.

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

	31 Dec 2019	31 Dec 2018	Change	
Total customer assets	**248,520**	**217,337**	31,183	14.3%
by customer segment				
Retail customers	113,336	97,384	15,952	16.4%
Institutional customers	135,184	119,952	15,232	12.7%
by product category				
Mutual funds and fund-based asset management	120,561	106,315	14,246	13.4%
thereof: equity funds	38,204	28,443	9,761	34.3%
thereof: bond funds	30,031	31,426	– 1,395	– 4.4%
thereof: mixed funds	17,580	15,467	2,113	13.7%
ETFs	9,035	8,602	433	5.0%
Special funds and mandates	118,924	102,420	16,504	16.1%

Business development in the Asset Management Real Estate business division

The economic result in the Asset Management Real Estate business division exceeded expectations but was down on the prior-year figure at €146.4m (previous year: €162.7m). Net sales saw a further year-on-year increase. As a result, and thanks to the solid investment performance, total customer assets reached more than €42bn.

Net sales and total customer assets

The division's net sales increased to €2.9bn (previous year: €2.6bn). As in previous years, the tried-and-tested quota system for sales to retail customers was maintained. This allows the inflow of funds into the products to be managed effectively, even in the face of high demand. What is more, the funds' liquidity resources can be limited in the current low interest rate environment. This also helps to prevent excessive investment pressure arising in view of the high real estate prices. The sales quotas that had been set were largely met by the end of the year. Mutual funds accounted for 77% of the division's net sales. There was particularly high demand for products focused on Europe, such as *Deka-ImmobilienEuropa* and *WestInvest InterSelect*.

At €0.8bn, net sales in open-ended mutual property funds for institutional customers, special funds, individual property funds, credit funds and mandates did not quite meet the previous year's figure of €0.9bn. Special funds accounted for a particularly significant proportion of sales.

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

	2019	2018
Net sales	**2,928**	**2,624**
by customer segment		
Retail customers	2,133	1,717
Institutional customers	795	907
by product category		
Mutual property funds	2,262	1,992
Special funds, individual property funds and mandates	666	632

The Asset Management Real Estate business division's total customer assets rose by 10.8% in the reporting year to €42.2bn. Of this increase, €33.8bn was attributable to mutual property funds. A yield-focused cash management policy and the introduction of new products, such as those involving the cooperation partner fund Swiss Life REF (DE) European Living, once again contributed to the increase in total customer assets. Euro-denominated mutual property funds achieved an average volume-weighted return of 3.3% (previous year: 3.4%).

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

	31 Dec 2019	31 Dec 2018	Change	
Total customer assets	**42,222**	**38,099**	4,123	10.8%
by customer segment				
Retail customers	31,078	28,477	2,601	9.1%
Institutional customers	11,143	9,622	1,521	15.8%
by product category				
Mutual property funds	33,786	30,934	2,852	9.2%
Special funds, individual property funds and mandates	8,436	7,166	1,270	17.7%

Transaction volume, i.e. purchases and sales of property, declined to €3.7bn (previous year: €4.5bn). Around 83% of the overall transaction volume concerned a total of 36 contractually secured property purchases. There were 21 disposals (around 17% of the transaction volume). Business activities continue to centre on properties in the office, retail, hotel and logistics asset classes. With this transaction volume, the Deka Group remains one of the world's biggest property investors.

Business development in the Asset Management Services business division

The Asset Management Services business division achieved an economic result of €10.3m (previous year: €4.1m. There were increases in the number of securities accounts and assets under custody (assets held by the Deka Group in its capacity as custodian bank) in Digital Multichannel Management. Assets under custody in the Depositary subdivision also saw a positive trend.

Aided by the positive market trend, assets under custody in the Digital Multichannel Management subdivision rose to €136.3bn (previous year: €118.6bn). At 70.4 million, the number of securities transactions fell short of the previous year's figure of 76.8 million. The 2018 figure was influenced by a one-off effect relating to the introduction of the Investment Tax Reform Act (*Investmentsteuerreformgesetz*). The number of custody accounts for which the division is the legal provider rose increased by 133 thousand to 4.8 million in the reporting year. Regular savings products were one of the key drivers behind the increase. By the end of 2019, around 290 savings banks (previous year: 140) had used the broker model to integrate the digital asset management system developed by bevestor into the product offering of their "internet branches".

In the Depositary subdivision, assets under custody rose significantly in line with the development in Asset Management to €220.3bn (previous year: €194.6bn).

Business development in the Capital Markets business division

At €107.1m, the economic result in the Capital Markets business division was significantly higher than the previous year's figure, which was hit by valuation effects and stood at €85.0m. As the Deka Group's product, solutions and infrastructure provider, the division plays an important role in the customer-centric approach of the *Wertpapierhaus*. Digitalisation initiatives such as the DEA and finledger platforms are being consistently pursued to increase the benefit to customers and achieve efficiency gains.

With its positioning in securities lending and collateral management, the Collateral Trading & Currency subdivision achieved a satisfactory performance despite high market liquidity and continuing expansionary monetary policy from the ECB, but fell short of the previous year's level.

The Commission Business subdivision maintained a stable level of business with shares, bonds, exchange-traded derivatives and supplementary services in 2019.

The Trading & Structuring subdivision benefited from sustained high demand in the third-party issues and certificates business as well as from market phase-oriented profitable risk management. At €6.6bn, net sales of certificates at year-end 2019 remained, as expected, below the previous year's figure of €8.0bn. At €5.3bn, retail customers accounted for the lion's share of demand (previous year: €5.7bn). Net sales of certificates to institutional customers totalled €1.3bn (previous year: €2.4bn).

Business development in the Financing business division

The economic result in the Financing business division outperformed expectations at €90.3m (previous year: €67.4m). The division's gross loan volume increased by 13.7% from the end of 2018 to €27.3bn. The specialised and real estate financing portfolios both expanded significantly year-on-year. This was especially due to good new business combined with lower than expected repayments.

Gross loan volume in the Specialised Financing subdivision rose substantially to €16.1bn (year-end 2018: €14.2bn). This was attributable partly to significant acquisitions in the infrastructure (primarily wind farms) and transport financing segments. Of the year-end portfolio, €4.0bn related to infrastructure financing (year-end 2018: €3.1bn, €2.3bn to public sector financing (year-end 2018: €1.2bn), €1.6bn to export financing (year-end 2018: €1.5bn and €4.7bn to transport financing (year-end 2018: €4.5bn). Transport financing comprised ship financing of €1.3bn and aircraft financing of €3.5bn. Gross loan volume for savings bank financing fell as expected by €0.4bn compared to the end of 2018 to €3.3bn.

The legacy portfolio, which primarily contains ship financing loans that were made before the lending risk strategy was changed in 2010, was reduced further to €0.2bn as planned in 2019 (year-end 2018: €0.3bn).

Gross loan volume in the Real Estate Financing subdivision also rose substantially over the course of the year to €11.2bn (year-end 2018: €9.8bn). The volume of commercial property loans rose to €8.9bn (year-end 2018: €7.8 bn). Financing volume in open-ended real estate funds also increased, reaching €2.3bn (year-end 2018: €1.9bn).

Compared to year-end 2018, the average rating for the loan portfolio according to the DSGV master scale improved by one notch to 5. This corresponds to a rating of BBB– on S&P's external rating scale. The average rating for Specialised Financing improved from 7 to 5 over the same period (S&P: BB to BBB–). The rating for Real Estate Financing remained unchanged on year-end 2018 at 4 (S&P: BBB–). Taking account of collateralised assets, the average rating for Real Estate Financing deteriorated from AAA on the DSGV master scale (S&P: AAA) to AA (S&P: A+).

By year-end 2019, new business volume in the Financing business division reached €8.3bn and significantly exceeded the previous year's €6.7bn. New business was split more or less equally between the two subdivisions. Specialised Financing accounted for €4.2bn (year-end 2018: €3.8bn) and Real Estate Financing for €4.0bn (year-end 2018: €2.9bn). Loans to savings banks accounted for some 4% of total new business in the division (year-end 2018: 7%).

At €1.1bn, the total volume of placements was above the previous year's figure of €1.0bn. Around half of this total was successfully placed within the *Sparkassen-Finanzgruppe*.

Financial position of the Deka Group

Financial management principles and objectives

Via its Treasury corporate centre, DekaBank pursues an integrated approach aimed at the active management of group-wide liquidity, thus ensuring that flexibility and investor trust are retained even in difficult market situations.

The Treasury corporate centre acts as a resource manager for the Deka Group. As such, Treasury manages group-wide liquidity reserves and the Deka Group's entire funding and own funds. It continues to assist the Board of Management with the management of existing guarantee risks for the Bank from fund products and also manages market price and counterparty risks in its own banking book. By setting transfer prices for the whole Group, Treasury ensures that the structure of the balance sheet is balanced and in line with strategy, and that individual transactions are calculated on a source-specific basis.

DekaBank supports cash pooling for the savings banks and other units of the *Sparkassen-Finanzgruppe*. It has high volumes of central bank-eligible highly liquid assets, which can be used to generate liquidity via various market access routes at any time.

Liquidity investing remains focused on investments in bonds issued by German federal states, German development banks, German run-off institutions, German *Pfandbriefe*, supranational institutions, investment-grade corporate bonds and, where appropriate, credit balances held with central banks.

Refinancing is carried out in a diversified manner using domestic and international money market and capital market instruments. This includes issues of *Pfandbriefe*, short-term bearer bonds based on the commercial paper (CP) programme, and medium to long-term unsecured bearer bonds based on the debt issuance programme ,as well as the programmes for structured issues and certificates. These activities are supplemented by placements of registered debt securities and promissory note loans. DekaBank also uses the repo and lending markets, call money and time deposits to raise liquidity.

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

Changes in the DekaBank balance sheet

Total assets as at the end of 2019 were €98.7bn, representing a drop of 1.7% from the previous year's figure of €100.5bn). This was due, in particular, to reduced volumes in the repo business and to the drop in cash reserves held with central banks.

Amounts due from banks and customers rose by €5.4bn to €35.8bn as a result of the increase in lending in the year under review and equated to 36.3% of total assets (previous year: 30.3%). Bonds and other fixed-interest securities totalled €13.8bn (previous year: €15.1bn). This corresponded to 14.0% of total assets (previous year: 15.0%). The trading portfolio (assets) rose from €35.1bn to €41.1bn, meaning that it equated to 41.6% of total assets in the year under review (previous year: 35.0%). This increase was due to an increased volume of interest rate derivatives and to interest rate developments and the volume-related increase in bonds in connection with synthetic lending transactions.

Amounts due to banks and customers stood at €38.9bn (previous year: €41.9bn), corresponding to 39.4% of total assets at the reporting date (previous year: 41.7%). This movement resulted predominantly from the decline in repo transactions as well as from lower deposits made by savings banks. Securitised liabilities increased by €2.7bn during the period under review, to €18.0bn. This was due both to the issue of commercial paper to manage liquidity, and to the issue of longer-dated bonds. The amount of securitised liabilities was equivalent to 18.2% of total assets at the reporting date (previous year: 15.2%). The trading portfolio (liabilities) fell slightly by €1.7bn to €34.8bn, equating to 35.2% of total assets (previous year: 36,4%).

Changes in the DekaBank balance sheet *in €m (Fig. 9)*

	31.12.2019	31.12.2018	Change	
Total assets	**98,733**	**100,464**	–1,731	–1.7%
Selected asset items				
Due from banks and customers	35,814	30,394	5,419	17.8%
Bonds and other fixed-interest securities	13,815	15,091	–1,276	–8.5%
Trading portfolio	41,063	35,122	5,941	16.9%
Selected liability items				
Due to banks and customers	38,910	41,891	–2,981	–7.1%
Securitised liabilities	17,973	15,308	2,665	17.4%
Trading portfolio	34,801	36,520	–1,719	–4.7%

Capital and liquidity adequacy

Full details of capital and liquidity adequacy in the 2019 financial year are provided in the risk report section of this management report.

See also:
Risk report:
page 36, ff.

Ratings

At year-end 2019, DekaBank's ratings remained among the best in its peer group of German commercial banks. This enables access to the money and capital markets on stable and competitive terms.

The rating assessments from S&P and Moody's reflect the high strategic importance of the Deka Group to the savings bank sector as well as the adequate capital and liquidity base for its business model.

In mid-September 2019, as part of an industry-wide ratings reassessment, Standard & Poor's (S&P) adjusted the outlook for DekaBank's A+ issuer rating from stable to negative. This followed S&P's verification of the Banking Industry and Country Risk Assessment (BICRA), in which the outlook for the BICRA components for Germany was changed from stable to negative. This change fed through to the outlook for DekaBank.

Ratings overview *(Fig. 10)*

	Standard & Poor's	Moody's
Bank Ratings		
Issuer Rating	A+ (negative) Issuer Credit Rating	Aa2 (stable) Issuer Rating
Counterparty Rating	A+ Counterparty Credit Rating	Aa2 Couterparty Risk Rating
Deposit Rating	N/A	Aa2 Bank Deposits
Own financial strength	bbb Stand-alone Credit Profile	baa2 Baseline Credit Assessment
Short-term rating	A-1 Short-term Rating	P-1 Short-term Rating
Issuance Ratings		
Preferred Senior Unsecured Debt	A+ Senior Unsecured Debt	Aa2 (stable) Senior Unsecured Debt
Non-Preferred Senior Unsecured Debt	A Senior Subordinated Debt	A1 Junior Senior Unsecured Debt
Covered Bonds	N/A	AAA Covered Bonds

Human resources report

The total number of employees at the end of 2019 stood at 4,723 and was roughly level year-on-year (year-end 2018: 4,716). The number of employees is determined by counting the number of employment contracts (temporary and permanent) in existence at the reporting date, including inactive employees, trainees and interns.

See also:
www.deka.de/deka-group/sustainability

At 4,108, there was no significant change in the number of earnings-relevant full-time equivalents compared with year-end 2018 (4,179). The number includes part-time employees actively involved in work processes in the Deka Group, who are counted *pro rata* on the basis of their working hours. At the year-end, approximately 79% of the workforce were employed in full-time posts. The average age of active employees (excluding apprentices and inactive staff members) was 44.8 years (previous year: 44.3 years). Further key indicators regarding sustainable HR management can be found in the sustainability report.

Implementation of the components of DekaPro, such as the digitalisation strategy, also has an impact on HR structures, processes, roles and tasks. Greater digitalisation in the world of work also places new demands on managers, employees and the ways in which they work together. In 2019, Deka therefore continued to steadily expand its central training provision relating to New Work and agile working methods. The focus in 2020 will include rolling out new e-learning courses on these topics. Alongside awareness raising for employees and managers, the focus of training in the years to come will be on empowering people to try out and organise new methods of cooperation on their own initiative and integrate them into everyday work. The aim is to combine the advantages of various approaches in hybrid working arrangements.

An understanding of the new management approaches this requires will be fostered among managerial staff. To this end, it is planned to strengthen the leadership approach. This makes managers more reflective leadership figures and helps them lead, in the interests of both the company and individual employees, in a way that creates a motivating corporate culture. Managers will be offered training that enhances their specialist, methodological and personal skills ready for the future.

The Deka Group also specifically promotes the career development of high-performing and high-potential staff through tailor-made formats. As a signatory to the UN Women’s Empowerment Principles, it pays particular attention to women’s career development. This is also reflected in the Equality Plan, which sets binding rules for gender equality and is endeavouring to provide better conditions for staff members with family obligations.

The Deka Group has already received awards from the “career and family audit” *Audit berufundfamilie* on five occasions for its family-friendly HR policy. It is actively working towards the next certification. At the same time, Deka is actively pursuing its Equality Plan and is on course to fulfil this by the end of 2020.

Forecast and opportunities report

Forecast report

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

Forward-looking statements

The Deka Group's planning is based on the assumptions about future economic development that appear the most probable from a current standpoint. However, plans and statements about expected developments and the course of business during 2020 are subject to uncertainty. Actual trends in the international money, capital and property markets or in the Deka Group's business divisions may diverge significantly from our assumptions, which are partly based on expert estimates.

The coronavirus that emerged in January has brought tourism and industrial production largely to a standstill in China with strict travel restrictions and mandatory factory shutdowns over the Chinese New Year and beyond. At the time this report was completed, it was not yet possible to reach a conclusive estimate as to the global impact on the economy. The economy could, for example, come under pressure as a result of potential production stoppages, sales problems and deteriorating corporate and consumer sentiment.

See also:
Risk report: page 36, ff.
Opportunities report: page 35

The Deka Group's risk position is explained in full in the risk report. If the risk scenarios referred to in the risk report should materialise, for example as a result of stress situations or counterparty default, this may result in negative differences from the forecast during the remaining months of the 2020 financial year. Conversely, opportunities may result in expectations being exceeded. The opportunities for the Deka Group are set out in the opportunities report.

Expected macroeconomic trends

DekaBank expects global economic growth of 3.0% in 2020. This reflects the stabilisation of the world economy, but also indicates that growth is unlikely to match the momentum seen in the years prior to the 2008 financial crisis. As in the previous year, and with Latin America having found its way out of recession in 2019, national economies will grow relatively in sync with one another in 2020. Cyclical factors, such as inventory replenishment at many companies, point to economic stabilisation in 2020, and DekaBank does not expect the trade dispute between the US and China to escalate. The US government is likely to be 35preoccupied with domestic issues in the presidential election year.

For the German economy, Deka predicts economic growth of 1.1%, with 0.4 percentage points of this effect attributable to additional working days. The remaining growth will be driven by the strength of the country's domestic economy. Consumer spending, government expenditure and construction will continue to grow, as in the previous year, but at a declining pace. The long upturn has had a positive impact on the labour market, with unemployment at its lowest level since reunification. DekaBank expects collectively agreed wages to rise by 2.4% in 2020, accompanied by reduced tax burdens and increasing transfers to private households, which should lift consumer spending.

The clear election victory by the Conservative Party in the UK enabled Brexit to take place on 31 January 2020. The UK and EU will conduct negotiations on a new free trade agreement in a transition period lasting until the end of 2020. However, the possibility of a no-deal Brexit still remains at the end of 2020, as it is uncertain whether such a free trade agreement can be concluded with the EU in just a year.

Expected environment for asset management

Capital market participants are braced for a long period of low interest rates. ECB monetary policy will continue to contribute to negative interest rates at the short and medium end of the curve under the new ECB president Christine Lagarde. DekaBank expects the Fed to leave interest rate policy unchanged in 2020. This monetary policy will support stock markets, as the prospect of persistent low yields on the bond market is likely to cause investors to divert funds into riskier forms of investment. The US economy proved robust in the face of global economic uncertainty in 2019, and sentiment indicators for the eurozone economy are also stabilising. This points to corporate sales and profits remaining high, which, combined with expansionary monetary policy, means we can expect stock markets to perform positively in 2020.

Real estate remains an attractive asset class. However, investment opportunities for real estate funds remain limited, meaning that restraint is still called for when attracting new inflows. Following sharp rent increases in some areas in recent years and given the weaker economic outlook, DekaBank expects a slowdown in rental growth in Europe in the years ahead. More newly built office space is also coming onto the market. With persistent low interest rates, property yields will remain low for the foreseeable future, presenting challenges for fund management.

Expected environment for the banking business

The longer-term prospects of low money market rates in the eurozone are likely to continue pushing investors into greater acceptance of credit and duration risks. This will keep corporate bond spreads low and counteract a steepening of the Bund curve. The ECB's net asset purchases are generating downward pressure on risk and maturity premiums. The easing of economic downside risks and rising long-term inflation expectations could, however, result in higher yields in the longer maturity ranges in the course of 2020. In view of the continuing expansionary monetary policy stance, however, any impact on corporate bond spreads and share prices should be limited.

In the individual market segments of its capital markets business, the Deka Group expects only moderate changes compared to 2019. The Commission Business unit will remain under pressure in terms of competition levels and margins. DekaBank continues to expect rising or constant margins in bond and derivatives business. In the financing business, the continuing high level of market liquidity and investment pressure among institutional investors will also put heavy pressure on margins, which may be reflected in the terms and conditions offered and the new business that can be achieved.

Overall assessment of the expected economic trends

All in all, DekaBank expects a largely positive economic environment for asset management in financial year 2020 given stable economic growth and continued expansionary monetary policy. The higher equity and real estate prices resulting from this may have a positive influence on total customer assets. Moreover, the high financial assets of private households in general and savings bank customers in particular hold enormous potential for fund sales. Returns on assets in the banking business will remain under pressure.

Expected business development and profit performance

The Deka Group will continue systematically implementing its *Wertpapierhaus* strategy in the years ahead. For 2020, it has set itself the goal of achieving further progress in the "growth" and "efficiency" dimensions. A customer-centric corporate organisation and focus is essential to making the Deka Group fit for the future. The potential solutions that digitalisation offers all along the value chain are a key lever in the development of the business model.

The challenge is to balance the efficient and thus sustainably competitive provision of services in line with growing business volume and simultaneously increasing requirements of regulatory requirements with an appropriate level of expenditure. Investment measures will also be implemented side by side with the efficiency drive. The necessary efficiency improvements and investments have already been included in planning.

Increased expenditure on efficiency and investment measures mean that the Deka Group's economic result in 2020 will be moderately below of the figure achieved in 2019. The forecast economic result will ensure that DekaBank remains able to distribute profits and to allow the retention of parts of the annual profit necessary for the purposes of capital management.

Expected returns for 2020 are based on ambitious sales plans combined with concentration on an investment fund business that maintains lasting value. This also includes regular securities saving. Total net sales are expected to exceed the previous year's level. The forecast for net sales to retail customers is slightly up on the 2019 figure, which was well into positive territory. A stronger year-on-year rise is planned for the institutional customer business. Further moderate growth in total customer assets is expected in 2020 compared to the figure as of year-end 2019.

The Asset Management Securities business division will work on continuing to develop its high-quality range of products and services in 2020 in close coordination with the sales departments. An increase in net sales is expected in the retail business. Equity funds, multi-asset funds, individual asset management products, new asset management funds, ETF-based asset management solutions and ETFs will be at the heart of this. In the institutional customer business, sales of special funds and, in particular, positive developments in institutional mutual funds and ETFs will boost sales performance.

Risks will come from the political arena (US foreign and trade policy), increasing nationalist currents in Europe, the escalation of latent armed conflicts and the impact of Brexit. These developments could put pressure on the stock markets and dampen investors' risk appetite, which could trigger fund outflows. In addition, a pronounced stock market correction could negatively affect total customer assets.

The Asset Management Real Estate business division aims to be the first-choice partner for savings banks and their customers when investing in commercial property. In open-ended mutual property funds for retail customers, the aim is to become the market leader without compromising on quality or stability. Deka-ImmobilienMetropolen and another new open-ended mutual property fund for the retail business are due to go on sale in 2020. This is the division's response to the ongoing high demand for its real estate products from private investors. It means that, for the first time, private investors can invest in a Deka open-ended real estate fund for property in the Asia-Pacific region. By further tapping market potential and introducing new products, the division also aims to significantly improve its market position in institutional business. This will include expanding the product range to include regulated special AIFs (alternative investment funds) in the form of an investment limited partnership. Consistently taking sustainability criteria into account in property purchases and portfolio management will also continue to ensure that Deka remains attractive to sustainability-oriented investors. In this way, the division hopes to improve net sales again in the retail business – with sales quotas increased only through the launch of new funds – and in institutional business. The aim is to achieve an overall increase in total customer assets.

Risks to the performance of the real estate business division arise from fierce competition in the transaction markets, which makes transaction planning difficult. While the interest-driven boom is improving sale prospects, it is also putting increased requirements on the structuring of property purchases. There is also the risk of cyclical changes in value in the event of a downturn on property markets. Risks also result from continued strong regulatory pressure and the impact of the EU Action Plan on Financing Sustainable Growth, which cannot yet be fully predicted.

For 2020, the Asset Management Services business division aims to increase assets under custody again in line with the targeted asset management growth. The Digital Multichannel Management subdivision plans to reaffirm its strategic direction with a focus on expanding and integrating the sales processes of physical branches and other channels that offer securities products from the savings banks. Combined with contemporary, innovative services such as digital asset management, this will ensure access to the customer interface in the *Sparkassen-Finanzgruppe*. The Depositary subdivision will strive to expand through growth in the Deka Group investment companies' mutual funds and in third-party mandates. It will continue to pursue its vision of establishing itself as the national champion.

There are risks to Digital Multichannel Management from a stagnation of sales, from product development in the custody account business and from delays in the enhancement of the multichannel sales offering. Rising expenses due, among other things, to changes in the regulatory environment could exacerbate these risks. Risks to future performance in the Depositary subdivision include rising pressure on margins for depositaries as well as market-induced outflows of funds.

The Capital Markets business division will continue its existing strategic direction as a customer-centric product and solution provider focused on DekaBank's structured products and the derivatives, issuance and trading business. This is the division's response to both regulatory requirements and current market developments. In the certificates business, retail products will be the focus again in 2020. It will also be important to maintain the Deka Group's position as an infrastructure provider with global capital market access. Systematically digitalising the existing platform solution will help to achieve this.

Risks for the development of the Capital Markets business division arise particularly from a drop in customer activity prompted by political or market/economic events, regulatory intervention in the design of products and definition of terms and conditions, further increased market pressure on fees and greater competition among brokers.

In terms of new business, the Financing business division plans in 2020 to expand its range in its defined core segments in specialised and real estate financing. Being a quality leader and sought-after financing partner for the savings banks remains its central approach. In a competitive market environment, the division is remaining true to its stability-oriented and low-risk strategy.

Risks for the Financing business division include political crises, which could adversely affect the economic outlook for lending segments in which we operate. This could lead to a need for higher loan loss provisions, or to increased capital adequacy requirements as a result of a downgrading of our credit ratings. The long acquisition periods and intense competitive pressure for credit assets may also mean that the intended new business volume and expected returns cannot be achieved.

Expected financial and risk position

In 2020 the Deka Group is anticipating a continued sound financial position and a slight increase in total assets. The Deka Group expects to maintain an adequate capital and liquidity base in both the normative and economic perspective. The Common Equity Tier 1 capital ratio (fully loaded) is expected to remain above the strategic target of 13%. Balance sheet management will be geared towards ensuring compliance with an appropriate leverage ratio significantly above the 3% mark and with the MREL requirement.

Risk appetite utilisation is expected to remain at a non-critical level in future, despite a noticeable increase. The planned new business in the Financing business division will be especially pivotal to this increase, and is expected to result in a significantly higher level of counterparty risk than at the end of 2019.

The Group's liquidity position is expected to remain at a sufficient level. The Deka Group will thus be able to fulfil its role as the liquidity and collateral platform for the savings banks and other institutional customers without restriction.

Development of key performance indicators in the Deka Group *(Fig. 11)*

		31 Dec 2019	Forecast 2020 in the Annual Report 2019
Economic result	€m	434.0	Moderate below the previous year
Total customer assets	€bn	313.4	Moderate above the previous year
Net sales	€bn	18.0	Above the previous year
Common Equity Tier 1 capital ratio (fully loaded)	%	14.2	Over 13%
Utilisation of risk appetite	%	63.9	Noticeable over the previous year

Supplement regarding the development of the impact of the coronavirus in the period leading up to 24 March 2020

Since the beginning of March, the coronavirus has led to further restrictions and has also significantly increased the likelihood of further pressure on the economy, as well as negative implications in the future resulting from the period of economic restrictions, for example in the form of job losses or company insolvencies. As a result, a gloomier sentiment among the corporate sector and consumers alike has also been exacerbated further.

The capital markets have seen periods of plummeting share prices with higher volatility, and the financial sector has been hit by a tense liquidity situation in some cases. At the time this supplement to the forecast report was completed, it was still not possible to reach a conclusive estimate as to the global impact on the economy.

If, however, the economic impact of the coronavirus translates into sustained pressure on the economy and the capital market, and if the current situation persists or deteriorates further, the economic result for 2020 could also be much lower than the 2019 figure. This could result, in particular, from lower than expected net commission and net financial income, or from risk provisions in the lending and securities business that are higher than predicted. In this case, it is possible that the other key management indicators, namely total customer assets, net sales, the Common Equity Tier 1 capital ratio and the utilisation of risk appetite, would also show less favourable development than that presented in the forecast report and the table above (Fig. 11).

Opportunities report

Opportunity management

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

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

- Opportunities arising from changes in circumstances result from market developments that are more favourable than expected. These include regulatory changes or changing investment trends on the part of customers.
- Corporate strategy opportunities are mainly linked to the strategy implementation programme, which is designed to put the *Wertpapierhaus* strategy into practice. Positive effects linked to the growth initiatives may be more extensive or occur sooner than assumed in the forecast report.
- Other opportunities lie in greater than anticipated process improvements or positive earnings effects from efficiency initiatives.

Current opportunities

The assumptions on economic trends made in the forecast report represent the most likely scenario from the point of view of the Deka Group. Nevertheless, economic trends may turn out to be better than the baseline scenario assumes. Low interest rates, increased confidence and significant productivity gains could lead to surprisingly high growth without a significant rise in inflation, despite high capacity utilisation. Thanks to the reduction of debt, the recovery of financial systems would continue apace. In this scenario, it is possible that, contrary to expectations, a substantial rise in index levels could lead to strong growth in total customer assets and have a positive impact on net commission income. The resulting somewhat stronger increase in yields at the long end, associated with a steepening yield curve, could improve the conditions for investing own funds and managing liquidity. A favourable macroeconomic scenario such as this would improve general conditions most notably for securities- and property-related asset management and capital market activities. This scenario is seen as rather unlikely, however.

Opportunities from market developments could also be generated by an even stronger shift towards funds, ETFs and certificates for financial savings. However, the Deka Group anticipates that this process will continue to take place only gradually. Nonetheless, if the popularity of funds, ETFs and certificates should increase by more than forecast in planning, this would have a beneficial impact on net sales and total customer assets.

There are strategic and other opportunities associated with the strategy implementation programme. The resultant effects have already been incorporated into the planning for 2020, meaning that any further positive impacts on the Deka Group's business and results are unlikely.

Risk report

Risk policy and strategy

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

The basic principles underlying the Deka Group's risk policy remain largely unchanged from the previous year. The risk strategy, including the guidance and tools described therein, has been amended and expanded in the context of the ECB guidelines on banks' internal processes for ensuring capital (ICAAP) and liquidity (ILAAP) adequacy.

In order to achieve its commercial objectives, the Deka Group accepts certain risks in line with strategic requirements. These risks are limited by a comprehensive risk management system that covers all types of risk and all business divisions, sales and corporate centres in order to ensure the success of the Deka Group as a business. The framework for business and risk management is provided by the general concept of risk appetite (Risk Appetite Framework – RAF), which forms the main basis for the ICAAP and ILAAP and is an integral part of the Deka Group's strategy system. The aim of the ICAAP and ILAAP is to help ensure the Deka Group's continued existence by maintaining adequate capital and liquidity and to contribute to effective risk management. To this end, there is a distinction within the ICAAP and ILAAP between the economic and normative perspective.

A strong risk culture for the Deka Group is key to the lasting achievement of the business policy objectives set out in the business strategy. Without risk-appropriate behaviour and a sensible approach to risks, it would be impossible to limit them through overall risk management and ensure the Deka Group's lasting business success. The concept of risk appetite and the procedures for monitoring compliance with it form one of the three fundamental pillars of the Deka Group's risk culture. It is complemented by sound governance and a remuneration system that encourages appropriate risk behaviour. Processes are in place to ensure that these three pillars are continuously adjusted to changing circumstances. Staff and leadership behaviour – risk culture in the narrower sense – are shaped by the rules set down in the Code of Ethics and by the Deka Principles of Leadership, in addition to the aforementioned formal components. The Deka Group has adopted a risk culture framework laying down binding guidelines for the responsible handling of risks in the Deka Group and for compliance among employees, managers and Board members in relation to this. The framework also sets out the guiding principles that detailed rules on processes and tools have to adhere to. Regular audit procedures and a survey on the risk culture initiated in the fourth quarter of 2019 have not indicated any shortcomings in this risk culture.

See also:
Opportunities report:
page 35

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

Strategy process

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

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

The risk data aggregation strategy adopted for the first time in the reporting year fleshes out the risk strategy in terms of the general requirements and specifications for effectively aggregating risk data and for risk reporting. As part of the risk strategy, it is an integral part of the strategic architecture and systematic strategic process.

Further developments in risk management

In November 2018, the European Central Bank (ECB) published two guides setting out its expectations on how to ensure capital adequacy (through the ICAAP) and liquidity adequacy (through the ILAAP). In particular, the requirements for the normative perspective within the ICAAP and ILAAP have led to a corresponding change to the concept of risk appetite, with the addition of the normative perspective in the first quarter of 2019. In this context, methodological changes were also made to the risk-bearing capacity concept for the economic perspective of the ICAAP. Given the requirement to apply a going concern approach on the capital side, the definition of internal capital and, in connection with this, the management concept were adjusted. Subordinated capital components are generally no longer included in internal capital, resulting in increased utilisation of risk capacity. To ensure risk-bearing capacity in the current situation, the Deka Group monitors risk capacity, as a formal total risk limit, risk appetite, which is relevant primarily for risk management purposes, and capital allocation; the previous control parameter of maximum risk appetite is no longer used. As a result of the adjustments made to the management concept for macroeconomic stress testing, the Deka Group now takes an even closer look at the impact of the (stress) scenarios, their probability of occurrence and lead time, as well as examining the possible mitigation measures available if necessary. The capital requirement depends on the results of this assessment. Alongside the integration of the normative perspective into the ILAAP, the ILAAP guidelines also saw changes to the monitoring processes for liquidity risks in foreign currency and to the liquidity emergency concept. For liquidity risks in foreign currency, materiality thresholds and alarm thresholds have been defined in the economic perspective and are consistent with the funding matrix. Further early warning indicators and emergency triggers have been added to the liquidity emergency plan.

Aside from the changes relating to the ICAAP and ILAAP, the Deka Group refined parts of its risk management and control in the reporting year in terms of both its organisation and risk management concepts, taking due account of regulatory requirements.

For example, the Deka Group continued to implement the extended requirements set out in the Minimum Requirements for Risk Management (MaRisk), which provide the regulatory basis for risk management at German level. This particularly involved the requirements governing architecture and the quality management of risk data, as well as the reporting system based on this data. The establishment of a central data management unit for risk data marked another important milestone in line implementation during the reporting period. This unit is supported by a network of local data managers, who have now been appointed in all major core areas and work together with central data management towards ensuring the ongoing review and thus continuous improvement of the quality of risk data.

In compliance with the EBA Guidelines (EBA/GL/2018/02), the Deka Group refined its monitoring of interest rate risk in the banking book using an earnings-based approach. In addition to the net interest income (NII) perspective, this now includes the valuation result arising from changes in interest rates. Risk drivers are analysed for a potential deviation relative to a reference scenario based on the earnings at risk (EaR) approach using specific scenarios and stress tests. Determining interest rate risk using the earnings-based approach provides an additional measure of interest rate risk in the banking book. This is monitored in addition to the net present value perspective, which is the primary management indicator.

With regard to the management of non-financial risks, further organisational changes took effect on 1 August 2019. The central functions for managing selected non-financial risks (NFR) are being consolidated in the independent Information Security Management department, which reports directly to the Board of Management, while the overarching control of operational risks is being transferred from the Compliance corporate centre back to the Risk Control corporate centre. Aside from the organisational changes, the taxonomy for non-financial risks was refined in the reporting year, and guidelines on methods and processes to continue integrating the various NFR functions were developed ready for implementation in subsequent years.

DekaBank followed through on various measures to implement the ECB’s requirements concerning internal models (“ECB guide to internal models”, EGIM, October 2019). In line with the general principles for internal validation, for example, it put in place the organisational separation of model development and model validation below senior management level with effect from 1 October 2019. This now affects the rating processes, other models with regulatory approval under the own funds requirements and the (valuation) models used as part of the ICAAP. A guide to model risk management also came into force in this context in the first half of 2019. This will hone the various roles in the model life cycle and the ways in which they work together.

To meet the requirements of the ECB guide on internal models published in November 2018, DekaBank has initiated appropriate measures in relation to the market risk model. These will be completed by mid-2020. The measures are in keeping with the findings of an on-site audit of the market risk model conducted in 2017 in the context of the supervisory review of internal models under Pillar 1 of the Basel capital regulations (targeted review of internal models – TRIM). The review aims to reduce the variability of model results and thereby increase confidence in internal models. It affects the internal rating models for credit risk (IRBA), internal market risk models (IMA) and internal models for estimating exposure to counterparty risk (IMM). In 2019, DekaBank underwent an on-site audit under the IRB approach. TRIM audits concerning counterparty risk do not affect DekaBank.

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

With regard to the calculation of counterparty risk, the changes to the presentation of counterparty risk, the inclusion of liquidation risk for collateral from securities repurchase and lending transactions, and the methodological adjustment to bring the determination of loss ratios into line with the IFRS 9 approach had the overall effect of mitigating total risk. Methodological changes were also made to the calculation of business risk, although these slightly increased the risk at Group level. Overall, the extended deduction for risks resulting from pension obligations to include risks from unfunded pension obligations and similar obligations, as well as the related provisions, had only a minor impact on internal capital.

Concept of risk appetite

Overview

The key component of the concept of risk appetite is the risk appetite statement (RAS), which provides the framework for the ICAAP and ILAAP. Within the ICAAP and ILAAP, there is a distinction between the economic and normative perspective.

The first starting point for the RAS is a description of the desired risk profile that is implied by our customer-centred business model. A Group-wide risk inventory ensures that the Deka Group has an overview of its risk profile at all times. The risk inventory exercise is carried out on an annual basis, and at other times as required, in order to assess which risks could have a significant negative impact on its financial position (including in terms of capital adequacy, earnings or liquidity). Particular consideration is given here to risk concentrations to which the Deka Group consciously exposes itself in connection with its business model. The assessment has further implications for backing risks with capital, for the holding of liquidity, and for validation. Inclusion of the relevant companies is checked as part of the risk inventory.

The second starting point for the RAS, in addition to the risk profile, is risk capacity – the maximum amount of risk that the Deka Group can accept with respect to its available funds. Risk appetite is defined, within the scope of this risk capacity, as the overall aggregate risk for individual risk types that the Deka Group is willing to accept in order to achieve its strategic objectives and business plan. There are different measures of risk capacity and risk appetite depending on the perspective and the nature of the risks (affecting profit or liquidity).

The RAS also incorporates medium-term planning, which specifies and quantifies details of the business and risk strategy. Medium-term planning involves an integrated planning process for profits, balance sheets, funding, capital and risk for the next three budget years, with account being taken of potential adverse developments.

The concept of risk appetite also covers procedures for monitoring compliance with risk appetite. These include management instruments, regular reporting, rulebooks, controls and processes, as well as risk governance in the sense that roles and responsibilities are laid down for implementing and monitoring risk appetite. Taking risk concentrations into account, the Deka Group has thus established limits for all risks classified as significant during the risk inventory and has implemented rigorous risk management.

Risk definitions, concentrations and measurement

The individual risk types for the purposes of risk monitoring and risk management are derived from the annual risk inventory. Risk types considered to be significant, which are backed by capital in the context of the ICAAP, include counterparty risk, market price risk, operational risk and business risk. Liquidity risk is also classified as significant and is managed and monitored as part of the ILAAP. Liquidity is maintained to cover material liquidity risk (in the sense of insolvency risk).

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

Counterparty risk

Counterparty risk is the risk of financial loss resulting from the deterioration in the creditworthiness of a borrower, issuer or other counterparty (migration risk) or when the counterparty is unable to fulfil its contractually-agreed obligations, or unable to fulfil them in a timely manner (default risk). Counterparty risk also includes the risk of changes in specific provisions: the risk that a specific provision will underestimate the loss. Country risk is also included in counterparty risk. There is a distinction between country risk in the narrow and broad senses. Country risk in the narrow sense equates to transfer risk, which results not from the business partner itself, but instead is due to that partner's location abroad. Country risk in the broad sense is the risk that countries or governments will be unable to (fully) meet their contractual obligations in respect of receivables.

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

Market price risk

Market price risk describes the potential financial loss from future market price fluctuations (and from relevant valuation parameters) over a fixed time horizon and hence includes interest rate risk (including credit spread risk), currency risk and share price risk. Option risks are included in the above risks.

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

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

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

The process for identifying and quantifying these risks in the economic perspective does not differentiate between the trading book and banking book; the same procedures are applied for all Deka Group portfolios, irrespective of the portfolio type. Market price risks relating to guarantees that the Deka Group has provided for individual investment funds are part of market price risk and are backed by capital as part of the ICAAP.

Credit valuation adjustments (CVAs) are potential valuation adjustments on derivative contracts. CVA risk is the risk of a corresponding financial loss due to potential future changes in the risk factors determining the valuation adjustments. CVA risk, for which separate RWAs are calculated, is quantified within market price risk in the economic perspective.

Liquidity risk

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

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

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

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

Operational risk

Operational risk means the risk of loss caused by the inadequacy or failure of internal processes, people and systems or by external events, including legal risks.

Business risk

Business risk concerns potential unexpected adverse variances from plan that result from changes in the behaviour of customers or contractual partners, or from market conditions, legal requirements or competitive conditions and for which the causes are not already covered by other risk types.

Reputational risk

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

Given this definition, the identification and management of reputational risks depends on the link to another risk type. For instance, as part of the loss documentation and self-assessment for operational risks (OR), a systematic determination and qualitative assessment of reputational risks resulting from an OR loss event are also performed. Where counterparty risk is concerned, the Deka Group uses, among other things, appropriate counterparty risk principles, a blacklist and appropriate assessment as part of the credit approval process. A sustainability filter is also applied in the context of counterparty and market price risks (exclusion criteria for proprietary investments developed with the help of a sustainability rating agency). The Deka Group uses transparent product descriptions, for example, and a defensive product design to counter potential reputational risks in connection with market price risks from the certificates business. In the case of business risk, the Deka Group manages the risk of lower commission due to the materialisation of reputational risks using relevant standards and principles for the funds' investment decisions. In addition to using these risk type-specific tools, the Deka Group quantifies the impact of reputational damage across all risk types as part of the macroeconomic stress tests. In terms of liquidity risk, which is managed separately, the negative effects of potential reputational damage on the Deka Group's liquidity position are taken into account as part of the stress-tested funding matrix.

Model risk
Model risks are not regarded as a separate risk type at the Deka Group, but are viewed in conjunction with the individual risk and valuation models. Model risks arising from errors during the implementation, use or application of valuation or risk models, or from the incorrect choice of parameters for these models, are treated as a sub-category of operational risk. Model risks are incorporated directly into the Deka Group's ICAAP by developing and assessing corresponding scenarios as part of the self-assessment process.

Model risk arising from the deliberate selection, specification, calibration or use of models, or from the choice of parameters, is described as model uncertainty. Model uncertainty should generally be avoided or minimised through suitable precautions. Relevant tools and processes are used for this purpose. However, even these processes are unable to fully eliminate model uncertainty.

In the normative perspective, model uncertainty from valuation models is deductible from Common Equity Tier 1 capital as part of the additional valuation adjustments under Article 34 CRR.

By contrast, model uncertainties arising from the specifications of risk models are viewed in conjunction with the respective risk type and specifically examined using detailed validation exercises. If necessary, a buffer is created for model uncertainties as part of the annual risk capital planning process; this reserved internal capital will consequently no longer be available for allocation.

Further types of risk
The Deka Group defines investment risk as the risk of financial loss due to impairment of the portfolio of equity investments, insofar as they are not consolidated in the balance sheet and therefore already included under other types of risk. Internal capital is set aside for investment risk. Currently, however, this risk has only a minor influence on the Group's risk-bearing capacity.

Pension risk comprises potential losses from pension benefits payable or similar commitments due that are not already covered by the provisions recognised for pensions or similar commitments. If material, losses due to guarantee obligations from pension commitments are calculated using appropriate assumptions when determining market price risk or counterparty risk and taken into account as a deduction from internal capital.

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

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

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

Risk profile of the Deka Group and its business divisions

To successfully implement its vision of the *Wertpapierhaus* while avoiding conflicts of interest, the Deka Group exploits the advantages arising from the interconnection of its business activities in fund management, lending and capital markets. The Deka Group's focus remains on added-value generating operations that are in demand from both the savings banks and their end customers where the risks are strictly limited and for which adequate expertise is available. As part of the long-term business strategy defined by the Board of Management and the risk strategy consistent with it, risk positions are entered into primarily in connection with customer transactions or when they can be hedged on the market. In addition, risks are incurred if they are conducive to liquidity management or if they are required to leverage synergies in investment fund business. Business activities in new products or new markets, and the establishment or acquisition of new business units, are undertaken only after a thorough risk evaluation has been performed.

These activities give rise principally to counterparty, market price, business and operational risks, as well as to liquidity risk (which does not directly affect the income statement). The Deka Group also consciously exposes itself to risk concentrations in the context of its business model. The main examples of this in the context of counterparty risk are the Group's focus on the domestic public sector, on German savings banks and their customers, and on selected capital market participants and central counterparties, which is partly due to its function as a securities and collateral platform. With respect to market price risk, the Deka Group's business model focuses primarily on credit spread risks. In addition, (general) interest rate risks from guarantee products make a significant contribution to the Deka Group's market price risk. To conduct its business, the Group mainly uses established products and markets with adequate market liquidity and market depth due to their international acceptance. No business is conducted involving physical delivery of precious metals and goods.

The Deka Group's business activities are organised into five divisions. Asset Management Securities, Asset Management Real Estate, Asset Management Services, Capital Markets and Financing. In addition to these, the Treasury corporate centre also exposes itself to risk in the course of its activities. In principle, this structure has a diversifying effect on business activities and the resulting risks for the overall portfolio. However, it is also associated in part with the pooling of certain business activities, resulting in different risk profiles in the individual divisions.

Asset Management Securities business division

Because of its focus on the active management of securities funds and investment solutions and services, this division principally generates operational and business risks for the Deka Group. These may be exacerbated by reputational risks in connection with the "Deka" brand. Counterparty and market price risks arise particularly in relation to the guarantee funds and pension products managed by the business division. These are fund-based guarantee products, where either the investment management companies themselves issue guarantees (with a letter of comfort from DekaBank for these liabilities) or DekaBank makes use of the investment management companies' funds for its own guarantee products (Riester products). The division also faces investment risks.

Asset Management Real Estate business division

As with Asset Management Securities, the principal operational and business risks in this business division arise from active fund management. To a small extent, market price and counterparty risks also arise for the division from real estate funds in the Group's own investment portfolio. The division also faces investment risks.

Asset Management Services business division

This business division, too, principally generates operational and business risks for the Deka Group. These result from the provision of banking services for asset management. Counterparty and market price risks also arise to a small degree from the operations of S Broker AG Co. KG, which is included in this division. The counterparty risks primarily result from S Broker's proprietary investments.

Capital Markets business division

Customer-led business activity in the Capital Markets business division gives rise in particular to counterparty and market price risks. These arise primarily from currency, securities lending, securities repurchase and derivatives transactions, from trading in financial instruments with financial institutions, savings banks, funds and companies, and in relation to DekaBank's strategic investments. Outside the strategic investments unit, proprietary trading not directly linked to customers takes place only for the purposes of managing risks from the customer business or for overall risk management purposes. In relation to the division's business activities, credit spread risks and, to a lesser extent, general interest rate risks, share price risks and currency risks, including associated option risks, arise in relation to the market price risk. Whenever economically justified, risks are covered using hedging instruments. The rules for recognising hedging relationships in the balance sheet do not always correspond with the methods used for internal bank management purposes. It is therefore possible that differences may arise between the economic and accounting hedging relationships. Operational and business risks also arise. As the central securities and collateral platform in the association, the Deka Group generates economies of scale and scope. This results especially in concentrations with increased gross risk in relation to individual major banks, market makers that act for the Deka Group and central counterparties. Risk concentrations also exist in relation to individual Landesbanks as association partners. The collateral in securities lending transactions can also give rise to risk concentrations in collateral, which are limited by the rules in the collateral policy.

Financing business division

The business activities of the Financing business division (essentially the financing of infrastructure, transport and real estate, ECA-backed financing, business with savings banks in Germany and financing of the public sector) create corresponding focal points, primarily in counterparty risk. In accordance with the business model, this also leads to regional risk concentrations in Germany, as well sector-based risk concentrations in relation to the financial sector. Real estate financing usually involves individual loans with a different regional focus. The division also faces investment risks.

Treasury

The Treasury corporate centre's various functions, especially management of the liquidity reserve, give rise to counterparty and market price risks. The investment focus of liquidity investments is currently on bonds issued by German federal states, German development banks, German run-off institutions, German *Pfandbriefe*, supranational institutions and investment-grade corporate bonds. Given the strategic focus, risk is concentrated on the public sector and domestic counterparties. Market price risk chiefly involves credit spread risks, which are closely monitored and reduced if required through disposals or credit derivatives. Interest rate risks, currency risks and share price risks arise to a limited extent. Operational risks also exist to a limited extent.

Organisation of risk management and control

Board of Management and Administrative Board

The Board of Management is responsible for the development, promotion and integration of an appropriate risk culture within the Deka Group and is clearly committed to risk-appropriate behaviour. It is also responsible for establishing, enhancing and monitoring the effectiveness of the risk management system. Within the risk management organisation, the Board of Management makes decisions on the Deka Group's strategy, including the nature and implementation of the risk appetite concept. It defines the amount of overall risk permitted at Group level and sets the capital allocations for the different types of risk and the business divisions, including the Treasury corporate centre. The Board also sets the thresholds used for internal management purposes for the Common Equity Tier 1 capital ratio, the total capital ratio, the leverage ratio (LR), the Minimum Requirement for Own Funds and Eligible Liabilities (MREL), the utilisation of the large exposure limit, and the liquidity coverage ratio (LCR). It thereby takes decisions, in particular, on the governance framework for the internal processes used to assess the adequacy of internal capital and liquidity (ICAAP and ILAAP) and is responsible for implementing these processes. This includes setting limits and early warning thresholds at Group level for the individual risk types.

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

Management committees

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

The Risk Management Committee (*Managementkomitee Risiko* – MKR) meets once a month and advises the Board of Management on matters regarding significant risks at Group level and on addressing, analysing and assessing issues that could have a significant influence on the total risk profile or profitability of the Group.

It helps the Board of Management to set the framework for managing capital and liquidity adequacy. The committee thus makes an important contribution to promoting a Group-wide risk culture. The meetings of the MKR are generally divided into three parts. In part A, the risk round table on non-financial risks (NFR), the discussion centres on current NFR-related risk topics for each unit or business division. Part B on methods and models deals primarily with methodological issues concerning risk and valuation models and the results of model validation. In part C, the risk round table on financial risks and current risk reporting, geopolitical risks and the economic environment, along with the regular reports from sub-committees in the context of financial risks, are presented to the committee and discussed. The voting members of the MKR include the member of the Board of Management responsible for risk control and head of the Risk Control department and, depending on responsibilities and the part of the meeting concerned, the heads of the Credit Risk Office and the Finance and Risk Control Capital Market Funds departments, the COOs for the Asset Management Securities and Asset Management Real Estate divisions, the COO for the banking divisions & depositary, and the heads of Compliance, Legal, IT, Human Resources, Business Services, Treasury, Corporate Office & Communications, Corporate Development, Sales Management & Marketing, Digital Multichannel Management, Institutional Customer Sales, Organisational Development, Information Security Management, Capital Markets, Real Estate Financing, Specialised Financing and Macro Research. The MKR is supported in this function by sub-committees, which each have individual core duties.

The Management Committee for Assets and Liabilities (*Managementkomitee Aktiv-Passiv* – MKAP), which generally meets every two weeks, primarily drafts resolutions on matters relating to the management of interest rates, currency, liquidity and refinancing, to fund-based guarantee products and to the capital and balance sheet structure. It assists the Board of Management with the operational management of capital and liquidity adequacy. Measures to be taken in the event of a liquidity crisis are also confirmed in the course of the MKAP's regular review. The permanent voting members of the MKAP comprise the members of the Board of Management responsible for Treasury, Finance, Risk Control and Capital Markets and the heads of the Treasury, Finance, Risk Control and Capital Markets corporate centres.

Sub-committees of the Risk Management Committee

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

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

See also: Counterparty risk: page 62, ff.

Additional committees that are relevant to counterparty risk management include the Country Risk Committee, which assesses and monitors country risk, the Monitoring Committee, which monitors and manages non-performing loans and loans on the watch list, the Risk Provisioning Committee, which performs regular analysis and examination of matters relating to the planning, monitoring and management of loan loss provisions as well as monitoring and managing restructuring and liquidation cases, and the Rating Committee, which analyses and monitors the internal rating procedures (see counterparty risk).

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

Business divisions and corporate centres

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

The Risk Control and Finance corporate centres have particular responsibility for developing a standardised and self-contained system to quantify and monitor all significant risks associated with the Deka Group's business activities. The two corporate centres each concentrate on different tasks as part of this work. Risk measurement procedures evolve on an ongoing basis in line with economic and regulatory requirements.

The Risk Control corporate centre, which is independent of the business divisions, is primarily responsible for the economic perspective and, across both perspectives, for coordinating and choosing the parameters for macroeconomic stress testing. It also monitors compliance with the limits approved by authorised decision makers, and immediately reports any limit breaches to them.

The Finance corporate centre is responsible for the normative perspective and also monitors compliance with the thresholds set for the regulatory ratios.

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

On behalf of the Deka Group, the Compliance corporate centre covers the regulatory functions of the Compliance Officer as set out in the German Banking Act (*Kreditwesengesetz* – KWG), the German Securities Trading Act (*Wertpapierhandelsgesetz* – WpHG) and the German Investment Code (*Kapitalanlagegesetzbuch* – KAGB). It also covers those functions assigned to the Money Laundering Officer pursuant to the German Money Laundering Act (*Geldwäschegesetz* – GwG) and the KWG, and represents the "Central Office" for the Money Laundering Officer and in relation to the obligations to prevent criminal acts under section 25h (7) KWG. Furthermore, the Compliance corporate centre fulfils the roles of Group Money Laundering Officer, of the party responsible for processes (*Verfahrensverantwortlicher*) under section 24c KWG, of the independent body (*Unabhängige Stelle*) under sections 70 and 85 KAGB, of the "Responsible Officer" as required for Qualified Intermediaries (QIs) under the Foreign Account Tax Compliance Act (FATCA), and of the Single Officer. The Compliance corporate centre has been headed by Britta Schulzke since 1 July 2019.

The specialist functions for monitoring selected non-financial risks are consolidated in the Information Security Management department, which reports directly to the Board of Management, along with the functions of Information Security Officer and Data Protection Officer.

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

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

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

		Counterparty risk	Market price risk	Operational risk	Business risk	Investment risk	Liquidity risk
Administrative Board							
Risk and Credit Committee	- Overview of current risk situation/risk management system - Discussion of strategic direction with Board of Management - Credit approval body	●	●	●	●	●	●
Audit Committee	- Reviews results of internal and external audits	●	●	●	●	●	●
Board of Management	- Determines strategic direction - Responsible for Group-wide risk management system - Defines risk appetite in the economic perspective and thresholds for regulatory ratios - Allocates risk capital to risk types and business divisions, incl. setting the limits for individual risk types at business division level	●	●	●	●	●	●
Management Committee for Risk (Management komitee Risiko – MKR)	- Assists the Board of Management in matters relating to significant existing and prospective risks and in defining a framework for management in the context of the ICAAP and ILAAP - Supports the Board of Management with the evaluation of issues that have a significant effect on the overall risk profile - Prepares draft resolutions for the Board of Management and makes decisions within the scope of the authority granted to it - Supplemented by various sub-committees	●	●	●	●	●	●
Stress Testing Committee	- Assesses and appraises stress test results - Specifies stress testing scenarios and processes - Reports and makes recommendations for action to the Board of Management	●	●	●	●	●	●
Models Committee	- Assesses current trends and validation issues with regard to valuation and risk models - Central operational body for assessing model risks	●	●	●	●	●	●
Country Risk Committee	- Assesses country risks - Assesses and further develops the methodology for limiting country risks - Approves/sets country limits	●					
Monitoring Committee	- Defines, assesses and further develops the early warning indicators and classification criteria - Monitors and manages troubled loans on the watch list	●					
Ratings Committee	- Enhances and maintains internal rating procedures and rating processes - Responsible for approving policies and regulations relating to the internal rating procedures	●					
Risk Provisioning Committee	- Plans, manages and monitors loan loss provisions - Monitors and manages restructuring and liquidation cases	●					
Risk Talk	- Supports the MKR/Board of Management in connection with risk management and monitoring processes in the Capital Markets business division's operational processes - Emphasis on market price and counterparty risk	●	●	●	●		●
Management Committee for Assets and Liabilities (Management komitee Aktiv-Passiv – MKAP)	- Supports the Board of Management in matters relating to interest rate and FX management, liquidity and funding management, capital and balance sheet structure management - Supports the Board of Management with operational ICAAP und ILAAP management - Evaluates the measures planned for liquidity crises - Prepares draft resolutions for the Board of Management	●	●	●	●	●	●
AM Securities business division	- Conducts transactions in line with strategic guidelines	●	●		●	●	●
AM Real Estate business division	- Conducts transactions in line with strategic guidelines	●	●		●	●	●

		Counterparty risk	Market price risk	Operational risk	Business risk	Investment risk	Liquidity risk
AM Services business division	Conducts transactions in line with strategic guidelines	●	●		●		●
Capital Markets business division	Conducts transactions in line with strategic guidelines	●	●		●		●
	Makes decisions within the framework proposed by the MKAP and defined by the Board of Management, and sets limits within the division		●				●
Financing business division	Conducts transactions in line with strategic guidelines	●			●	●	●
Treasury (Corporate Centre)	Conducts transactions in line with strategic guidelines	●	●				●
	Makes decisions within the guidelines proposed by the MKAP and established by the Board of Management and sets limits within the corporate centre Manages market price risks in the banking book, manages the liquidity and refinancing of the Deka Group		●				●
Risk Control (Corporate Centre)	Develops and updates system to quantify, analyse and monitor risks (economic perspective and both perspectives for the purposes of stress testing) Reports to Board of Management and Administrative Board Determines/monitors risk-bearing capacity Monitors approved limits Responsible for general controlling of operational risks	●	●	●	●	●	●
Finance (Corporate Centre)	Develops and updates system to quantify, analyse and monitor risks (normative perspective based on actual situation) Reports to Board of Management and Administrative Board Determines regulatory ratios Monitors thresholds in the normative perspective	●	●	●	●	●	●
Credit Risk Office (Corporate Centre)	Administrative office for early risk identification Market-independent second recommendation Reviews and/or approves ratings Checks certain collateral Management of troubled and non-performing loans (work out) Loan administration Responsible for lending-related processes	●					
Equity investments (Corporate Centre Corp. Development)	Manages equity investment portfolio					●	
Compliance (Corporate Centre)	Regulatory function of Compliance Officer pursuant to KWG, WpHG and KAGB and Money Laundering Officer pursuant to GWG and KWG, as well as "Central Office" pursuant to KWG Function of Responsible Officer for QI and FATCA^ Independent body under sections 70, 85 KAGB Single Officer under section 81 (5) WpHG Process owner under section 24c KWG			●			
Information Security Management (ISM) (reports directly to the Board of Management)	Monitors selected non-financial risks through specialist functions (information security management, BCM, data protection and central outsourcing management)			●			
Internal Audit (Corporate Centre)	Audits and evaluates all activities/processes (especially risk management system)	●	●	●	●	●	●
All business divisions and Corporate Centres	Identify, measure and manage operational risks on a decentralised basis			●			

Three Lines of Defence model

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

The “Three Lines of Defence” model practised by the Deka Group is designed to ensure compliance with and verification of the risk framework stipulated by the risk strategy, including the regular review of ICAAP and ILAAP. The operational business units responsible for exposures are – as the first line of defence – responsible for identifying, assessing and managing the (financial) risks involved in any business conducted. This also includes transactions to minimise total risk at Group level in day-to-day operations. In terms of the (non-financial) risks that are inherent in the general business activities but not incurred in direct connection with individual transactions, each unit should be treated as part of the first line of defence. The controls forming the first line of defence are supplemented and enhanced by the independent downstream organisational units that carry out risk management functions as part of the second line of defence (e.g. the Risk Control, Credit Risk Office and Compliance corporate centres). These units monitor compliance with the requirements of corporate policy independently of front office and trading operations. For financial risks, the need for an independent monitoring function results from the conflict between responsibility for earnings and responsibility for risks. Translated to non-financial risks, it is therefore necessary to create a specialist function for at least those areas of risk in which the first line of defence can be assumed to have an incentive to accept higher risks with the goal of minimising costs. In addition, an overarching function defines methodological standards that ensure the risks are assessed in a comparable way, reported consistently and taken fully into account in the capital adequacy assessment. The third line of defence is the Deka Group’s Internal Audit department, which also exercises its functions independently.

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

Accounting-related internal control and risk management system

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

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

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

Additional checks - for example in order to substantiate balance sheet items - are carried out at an aggregated level by "sub-position managers". These employees, who have in-depth product knowledge, are also responsible for regularly calculating results.

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

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

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

Framework and tools for managing capital adequacy

The Deka Group has defined risk capacity and risk appetite as follows, depending on the perspective.

In the economic perspective, the risk capacity for profit-affecting risks is set in the course of the risk-bearing capacity analysis, while taking due account of risk concentration. It represents the upper limit of acceptable risk and corresponds to the Deka Group's total internal capital. The risk appetite for profit-affecting risks is defined in the economic perspective as part of the risk-bearing capacity analysis as the allocated risk capital (allocation) for the total risk at Group level. The maximum permissible risk appetite is equal to risk capacity less a management buffer.

In the normative perspective, thresholds are set that take into account the regulatory requirements. It is important that the chosen thresholds provide sufficient notice to allow for the preparation and initiation of management measures. Escalation and information processes are triggered for governance purposes when individual thresholds are hit. The thresholds are also reviewed and adjusted as necessary as part of an annual revision process. The maximum level of risk corresponds to the red threshold for the Common Equity Tier 1 capital ratio used for internal management purposes. In the current situation, this is based on the overall capital requirements (OCR) and the Pillar 2 Guidance (P2G) as part of the SREP process. For internal management purposes, red thresholds have also been set for the total capital ratio, the leverage ratio, the MREL ratio and utilisation of the large exposure limit. In the normative perspective, the level of risk that the Deka Group is willing to accept in relation to profit-affecting risks is the amber threshold for the Common Equity Tier 1 capital ratio used for internal management purposes, which is comprised of the overall capital requirements (OCR), the Pillar 2 Guidance (P2G) and a management buffer. For internal management purposes, there are also amber thresholds for the total capital ratio, the leverage ratio, the MREL ratio and utilisation of the large exposure limit. The management buffer has been determined taking into account the ECB guide to the ICAAP and is essentially based on the results of the annual risk inventory and strategic considerations as to how to respond flexibly to potential business opportunities without jeopardising capital adequacy.

In order to appropriately reflect the particular features of non-financial risks, which, wherever possible, are quantified as sub-risk categories of operational risk, qualitative risk tolerance rules are also set for these risks in addition to the quantitative risk appetite relating to the overall risk position. Such risks include compliance risk and reputational risk, among others.

The Deka Group makes use of a variety of tools to manage the risks and risk concentrations resulting from its business activities and thereby ensure capital adequacy. In the course of the ICAAP, the Deka Group distinguishes here between tools that apply to all risk types at the level of strategic requirements and risk-specific tools for operational management, which are described for the economic perspective in the sections covering the individual risks. Alongside the risk inventory, the tools used by the Deka Group for overall management and monitoring of the risks mainly comprise risk and capital planning, the economic perspective in the current situation with the monthly risk-bearing capacity and capital allocation, the normative perspective in the current situation with adherence to regulatory ratios, and macroeconomic stress testing, which covers both the economic and normative perspectives. Key performance indicators are integrated into both the recovery plan and the remuneration system.

Risk and capital planning

Medium-term planning involves an integrated planning process for profits, balance sheets, funding, capital and risk for the next three years, with account being taken of potential adverse developments. For profit-affecting risks, risk and capital planning in the economic perspective calculates risk-bearing capacity for the next three years. Based on the planned business activities and the risks associated with them, and taking into account the available risk capacity in this perspective, the Board of Management sets the risk appetite for operational activities. In accordance with the planning assumptions, certain items are not taken into account. Based on the risk appetite, the Board of Management also allocates capital to the individual risk types and business divisions. This process also allows potential risk concentrations to be effectively addressed at an early stage. Any adjustments needed during the year are undertaken when recommended by the MKR and adopted by a resolution of the Board of Management.

The regulatory ratios (Common Equity Tier 1 capital ratio, total capital ratio, leverage ratio and MREL ratio) are determined for each year as part of the normative risk and capital planning. The Common Equity Tier 1 capital ratio should exceed the target ratio or at least show medium to long-term adherence to the strategic target ratio. The strategic target ratio is determined based on the supervisory requirements (OCR and P2G) plus a strategic premium and is set annually as part of the planning work by the Board of Management.

The lower limit is the amber threshold used for internal management purposes for the relevant year. This is calculated based on the OCR and P2G expected to apply in the relevant year plus a management buffer.

In addition to planning based on expected economic developments (base scenario), appropriate scenarios are used to assess whether the regulatory ratios can be adhered to even under adverse circumstances within the planning horizon. To this end, the Board of Management may set its own annual thresholds that deviate from the base scenario.

Economic perspective (current situation): Risk-bearing capacity and capital allocation

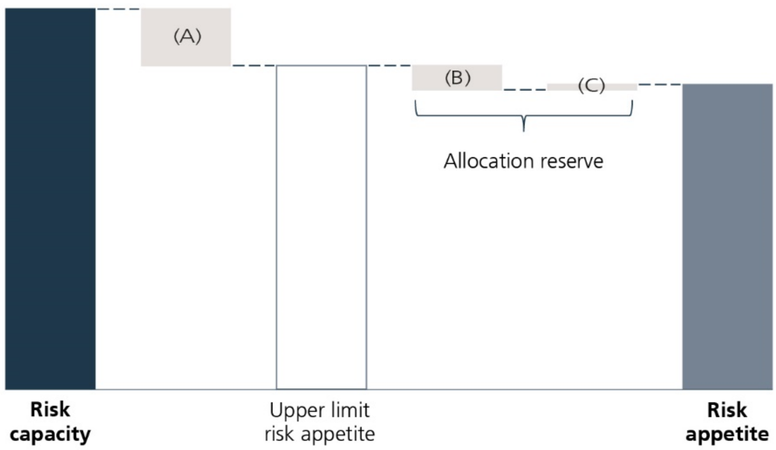
As a basic principle, internal capital is used to determine the maximum level of risk that can be incurred (impacting the income statement), taking into account risk concentrations. Risk capacity is analysed monthly. In the course of the risk-bearing capacity analysis, the risk capacity (in the form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

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

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

Based on this, a management buffer is set whose amount must at least correspond to the buffer for model uncertainty (depending on the risk models used). Risk appetite is the primary control parameter. In addition to the Group-level analysis, risk is also limited, based on the risk appetite, by business division (including the Treasury corporate centre) and risk type (including investment risk) in the form of allocated risk capital.

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



(A) Deduction of maximum of buffer for model uncertainty and minimum management buffer
(B) Hidden losses and reserves and own credit rating effects
(C) Allocation reserve after deduction of (B)

The utilisation ratios for risk capacity and the risk appetite may not exceed 100%. For the utilisation of the risk appetite, an early warning threshold of 90% has also been established.

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

Normative perspective (current situation): Compliance with regulatory ratios

The regulatory ratios are calculated monthly or quarterly. Adherence to the internal thresholds is ensured using an ongoing monitoring process, which additionally includes a monthly plan/actual comparison and a regular forecast process. The regulatory ratios are reported monthly to the Board of Management and quarterly to the Administrative Board. If the amber threshold is undercut in internal management, the Board of Management has to be informed using ad hoc reports as part of an agreed escalation process. The Board decides on measures to resolve this. Unless decided otherwise by the Board of Management, the Administrative Board is informed of the fact that the amber threshold has been undercut as part of the regular quarterly reporting process and is notified of the measures initiated. If the red threshold is undercut in internal management (i.e. if the alarm threshold for the corresponding recovery plan indicator is reached), this triggers governance measures under the integrated recovery plan.

In addition to adhering to these internal thresholds, the business divisions and Treasury corporate centre are required, within the framework of this overall plan, not to exceed the target RWAs specified in the medium-term planning as a general rule. In the event that individual business divisions or the Treasury corporate centre may conceivably exceed these targets, the affected business divisions and the Treasury and Finance corporate centres examine whether measures to reduce RWAs are required.

Macroeconomic stress tests (both perspectives)

Macroeconomic stress testing for all risk categories is used as an additional tool to manage capital adequacy along with the indicators for the current situation. Capital adequacy is regularly assessed by way of macroeconomic stress tests, which enable an estimate to be made of how it would be affected by extreme market developments. Macroeconomic stress tests enable action areas to be identified at an early stage as soon as crisis situations emerge.

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

The effects of the various macroeconomic stress scenarios are calculated for the economic perspective for all relevant risk and earnings figures and compared to the internal capital determined for each scenario. Similarly, in the normative perspective, the effects of the stress scenarios on regulatory own funds and RWAs, the resulting capital ratios and the leverage ratio and MREL ratio are calculated and compared to the regulatory requirements. Utilisation of the large exposure limit is also examined. The point in time for which the stress scenarios are calculated is always a year in the future.

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

The regular annual reviews of the macroeconomic scenarios were carried out in the fourth quarter of 2019. In general, it was found that the scenarios examined continue to provide an appropriate reflection of all risks relevant to the Deka Group. In the light of current economic and regulatory developments, the stress scenarios were updated as necessary and the description and choice of parameters for the hypothetical and institution-specific stress scenarios adjusted accordingly.

Framework and tools for managing liquidity adequacy

Liquidity risk is managed and monitored as an independent risk category within the framework of the Deka Group's risk strategy. The liquidity risk strategy applies to all organisational units of the Deka Group and sets out the responsibilities for liquidity risk management and monitoring.

Liquidity risk in the narrower sense (insolvency risk) is not an immediate risk to the Group's profit that can be cushioned with equity capital. Liquidity risk management therefore forms an additional management level outside the ICAAP. Like the latter, it is based on the results of the risk inventory and integrated with the recovery plan and remuneration system. The central objective of liquidity risk management is to prevent liquidity shortfalls and thus ensure that the overall solvency of the Deka Group is guaranteed on a continuous basis. In the economic perspective, the key risk measure used in the integrated quantification, management and monitoring of liquidity risk is the relevant funding matrix (FM) defined by the Board of Management. In the normative perspective, the key risk measure is the liquidity coverage ratio (LCR) for regulatory purposes. The LCR is the ratio of the holdings of high-quality liquid assets (HQLA) to the total net outflows for the next 30 days, as calculated under a stress scenario.

For liquidity risk (insolvency risk), risk capacity is defined in the economic perspective as the amount of free liquidity that is in principle available. It thus corresponds to the positive liquidity balance of the FM for normal business operations. For liquidity risk, the Deka Group has defined its risk appetite in the economic perspective such that an indefinite survival horizon exists under an extreme hypothetical stress scenario of a simultaneous institution-specific and market-wide stress event. This hypothetical stress scenario is illustrated in the "combined stress scenario" funding matrix. Permanent solvency and an unlimited survival horizon are achieved by setting a limit of 0 on the liquidity balances of all maturity bands.

In the normative perspective, thresholds are set that take into account the regulatory requirements. It is important that the chosen thresholds provide sufficient notice to allow for the preparation and initiation of management measures. Escalation and information processes are triggered for governance purposes when the thresholds are hit. The thresholds are also reviewed and adjusted as necessary as part of an annual revision process. The maximum level of risk corresponds to the red threshold for the LCR used for internal management purposes. In the current situation, this is based on the applicable regulatory requirement (currently 100%) plus a management buffer. In the normative perspective, the liquidity risk that the Deka Group is prepared to accept is the amber threshold for the LCR used for internal management purposes. This is comprised of the red threshold used for internal management purposes plus a management buffer. The management buffer has been determined taking into account the ECB guide to the ILAAP and is essentially based on the results of the annual risk inventory and strategic considerations as to how to respond flexibly to potential business opportunities without jeopardising liquidity adequacy.

Risks impacting the income statement arising from refinancing gaps (liquidity maturity transformation risk) are currently not material because the limits placed on liquidity balances in the FM prohibit negative balances, meaning that maturity transformation is only possible to a very limited extent. In view of the ample levels of liquidity available to the Deka Group overall, market liquidity risk is also not regarded as significant at present.

Liquidity positions are managed by the Treasury corporate centre. Liquidity management involves managing and monitoring short-term and structural liquidity and offsetting liquidity costs and benefits. At the same time, the Treasury corporate centre ensures that an adequate liquidity reserve of central-bank-eligible collateral is available. In addition, it is in charge of managing the Deka Group's liquidity reserve as well as controlling the level of liquidity ratios. Operational liquidity management across all maturities is also handled centrally by the Treasury corporate centre.

The liquidity position and compliance with risk appetite is analysed, for the economic perspective, across the entire Group by the Risk Control corporate centre and monitored independently from the front office units in organisational and procedural terms. The Finance corporate centre is responsible for determining the LCR and monitoring compliance with the thresholds set.

In the event of a liquidity emergency, a crisis committee assembles. It may decide all measures judged necessary to ensure the short-term solvency of the Group and may instruct all units of the Deka Group to implement these measures. The Board of Management, as a permanent member with a voting right, is the core of this crisis committee. Continuous monitoring of market-wide and institution-specific early warning indicators and emergency triggers anticipate potential liquidity crises so that appropriate countermeasures can be quickly implemented in the event of adverse developments.

Economic perspective: Funding matrices
The purpose of the funding matrix is to show expected future cash flows across the portfolio as at the reporting date. The liquidity requirement (liquidity gap) or liquidity surplus is determined for each maturity based on these flows. In addition, freely available financial resources, such as realisable assets in the form of securities, over-coverage in cover registers and other sources of funding, are identified as potential liquidity on an aggregated basis. The liquidity balance for each maturity band is determined from the sum of the cumulative liquidity gap and the cumulative liquidity potential.

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

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

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

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

The Deka Group primarily examines the "combined stress scenario" FM, which simulates the simultaneous occurrence of both the institution's own and market-wide stress factors. This FM fully implements MaRisk requirements. A traffic light system in the "combined stress scenario" FM, consisting of early warning thresholds and limits, is used to manage compliance with risk appetite – i.e. to ensure that the Group is solvent at all times with an indefinite survival horizon in a stress scenario that is both institution-specific and market-wide – and is monitored daily. The use of limits means that the liquidity balance must be positive for all the maturity bands monitored. In addition, individual stress scenarios are examined separately in special FMs for which different modelling assumptions are used. Among other factors, market liquidity risks arising from a reduction in the market value of the securities in the liquidity potential are taken into account in the stress scenarios.

Liquidity risks in foreign currency are monitored daily based on the "combined stress scenario" FM in the relevant foreign currency using materiality and alarm thresholds.

Normative perspective: Regulatory liquidity ratio
The Finance corporate centre monitors the internal amber threshold as part of the daily calculation of the LCRs for DekaBank Deutsche Girozentrale and DekaBank Deutsche Girozentrale Luxembourg. This enables proactive management of the LCRs. A Group-wide LCR is calculated on a monthly basis.

Tools for both perspectives
DekaBank has established a liquidity transfer pricing system (funds transfer pricing) for the source-specific internal allocation of liquidity costs, benefits and risks. The transfer prices calculated are taken into account in the management of risks and returns. The liquidity transfer pricing system is used to allocate economic costs on a source-specific basis as well as the costs for maintaining the liquidity buffer and complying with regulatory requirements (e.g. LCR). The use of a liquidity transfer pricing system for source-specific allocation allows liquidity to be proactively managed and efficiently allocated.

Macroeconomic stress testing for all risk categories is used to manage both capital and liquidity adequacy. For the economic perspective, the impact of the stress scenarios on liquidity balances is calculated and compared to the relevant funding matrix. Similarly, in the normative perspective, the effects of the stress scenarios on the LCR are calculated and compared to the regulatory requirements.

The results of the macroeconomic stress tests in relation to liquidity adequacy, too, are determined quarterly, assessed by the Stress Testing Committee and reported to the Board of Management, the Risk and Credit Committee, and the Administrative Board.

Reporting

Appropriate and high-quality aggregation of risk data and reporting based on this provide the foundations for effectively monitoring and managing risk appetite within the framework of the risk strategy. Key instruments for risk reporting include the quarterly risk report in accordance with MaRisk to the Board of Management and the Risk and Credit Committee of the Administrative Board, as well as the monthly reporting on the economic risk situation and financial ratios to the Board of Management. The Board of Management also receives more extensive reports for individual risk types, which contain key information on the current risk situation. The Administrative Board receives a three-part quarterly report on the development of earnings, value drivers and risks at the Deka Group and in the individual business divisions.

Risk concentrations in relation to individual counterparties (cluster risks and analysis of shadow banking entities) are reported on a monthly basis to the Board of Management and the key risk committees as part of the report on the economic risk situation. In addition, a detailed analysis of all individual counterparties classified as clusters and the associated segment concentrations in comparison to the guidelines set by the credit risk strategy is conducted on a quarterly basis as part of the quarterly risk report. If necessary, adjustments are made to the number and volume of the relevant counterparties.

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

Besides these overall reports, there are also corresponding reports for every type of operational limit that is set. These reports are used to monitor compliance with the respective guidelines on a daily basis. Any breach is immediately brought to the attention of the authorised decision maker – and in the event of material breaches, also the Board of Management. If the liquidity balance exceeds the limit, the Board of Management is notified immediately. Moreover, the LCR is prepared daily in the reporting system of the Finance corporate centre and provided to monitoring units.

Capital adequacy in financial year 2019

In geopolitical terms, 2019 was marked by ongoing trade disputes, especially that between the US and China, which had a damaging effect on growth and, above all, created uncertainty about the future world economic order. In Europe, Brexit was a driver of uncertainty again in 2019.

Ongoing tensions and uncertainty led the two major central banks – the Fed and the ECB – to hold rates at their historic lows or cut them further. This resulted in rising bond prices, with yields on short- and medium-term German government bonds falling well into negative territory. For a time, the EONIA curve was also negative across all maturity ranges. Yields later rose slightly up to the end of the year but remained at a very low level.

Against the backdrop of geopolitical tensions and signals from central banks that the economic situation would remain difficult, the equity markets were repeatedly hit by short-term volatility, but nevertheless performed very positively overall over the course of the year.

At the same time, yield spreads in the bond markets continued to decline. The iTraxx and CDX – the two major indices for credit derivatives – fell to their lowest levels since the financial crisis.

The interest rate benchmark reform (reference rates) initiated by the Financial Stability Board continued to gather pace in the reporting year. Following the introduction of a new USD reference rate in April 2019 – the Secured Overnight Financing Rate (SOFR) – the ECB began publishing the Euro Short-Term Rate (€STR) as a successor to the EONIA in October 2019. This means that, in the key global interest rate markets, new interest rates are now in place that meet the requirements of the Benchmark Regulation and can therefore be used long-term as reference rates in financial instruments. Significant work is still required, however, to switch all contracts and products to the new rates. These efforts are taking place against the backdrop of the still-developing market in the new interest rates and a deadline of the end of 2021 for phasing out the old benchmarks such as the LIBOR family.

DekaBank has created a cross-divisional governance structure for this transition. This involves every step of the process chain, from front office units to the corporate centres. The necessary adjustments to internal systems, processes and methods are being managed through the new product process. The management committees such as the MKR and MKAP are regularly updated on the progress of these activities, as is the Board of Management.

Despite these enormous changes in the global market, the general effects so far, and especially those at DekaBank, have been very modest. Neither the launch of €STR, nor the resulting changes to the quotation of the EONIA rate, nor the first transactions with SOFR and €STR as the reference rates have caused any issues in day-to-day business along the process chain. During the transition period, in which the old and new interest rates will exist in parallel, there is, however, a possibility of increased risks from rising market volatility due to declining liquidity in the old interest rates. The Bank is combating these risks by thoroughly planning ahead for the transition of the bank portfolio.

In 2020, the Deka Group expects further changes relating to the use of the new interest rates. The definition of new term rates (term benchmarks beyond overnight rates) will be a key aspect of this further development. Various proposals from market participants are currently under discussion.

The agreement reached on the UK's exit from the European Union, which followed protracted negotiations, has so far had no significant impact on business developments at the Deka Group either. Due to the measures taken in 2018, no negative effects are anticipated looking ahead.

At DekaBank, the sometimes extreme market developments, particularly in interest rates, had only a minor impact on the total risk in the trading book and banking book portfolios. This was primarily because DekaBank's risk profile is largely neutral in equities and general interest rate risks. Risks from Riester products and pension obligations were an exception to this. Here, there were significant changes to risk levels over the course of the year, especially in the summer, when interest rates hit their lowest levels.

The Deka Group held adequate capital throughout the reporting period. In particular, the utilisation of risk capacity and of the risk appetite as well as the Common Equity Tier 1 capital ratio remained at non-critical levels throughout.

Economic perspective (current situation)

During the reporting year, the models employed by the Deka Group for economic risk management continued to reflect the corporate and market situation in an appropriate and timely manner. The Deka Group's total risk exposure (value-at-risk, confidence level 99.9%, holding period of one year) at the 2019 reporting date was €2,395m, a decline of €97m on the 2018 reporting date (€2,492m). There was a substantial reduction in market price risk and a noticeable fall in counterparty risk, but also a significant rise in business risk.

The lower overall risk was accompanied by a marked drop in risk capacity to €4,726m (year-end 2018: €5,920m), which was attributable primarily to the removal of subordinated capital components from the internal capital concept. Ignoring this methodological change, risk capacity rose slightly overall. There were positive effects from the correction item for hidden liabilities and reserves, from retained earnings, from the net income contribution for the following year and from the deduction item for risks on pension obligations. Negative effects arose from the development of the deduction for deferred tax assets and the revaluation reserve, from the full consideration of the potential profit impact of measures to strengthen the capital for a company in the equity investment portfolio, and from the decline in the correction item for the own credit quality effect. Particularly as a result of the methodological change described above, the utilisation of risk capacity was up considerably as against the end of 2018 (42.1%) to 50.7%, although it remains at a non-critical level.

Utilisation of allocated risk capital was non-critical both at Deka Group level and in all business divisions. The risk appetite of €3,750m (slight increase on the end of 2018) was 63.9% utilised as at the 2019 reporting date (year-end 2018: 67.4%).

Change in Deka Group risk over the course of the year *€m (Fig. 14)*

	31 Dec 2019	31 Dec 2018	Change	
Counterparty risk	1,354	1,416	–62	–4.4%
Investment risk	44	36	7	20.1%
Market price risk	363	520	–158	–30.3%
Operational risk	259	269	–10	–3.6%
Business risk	375	250	125	50.2%
Total risk	**2,395**	**2,492**	–97	–3.9%

Normative perspective (current situation)

Capital adequacy is determined in accordance with the CRR/CRD IV. Alongside credit risk, market risk and operational risk, the credit valuation adjustment (CVA) risk is also taken into account.

The Deka Group's regulatory own funds as of 31 December 2019 stood at €5,828m (31 December 2018: €5,741m). This represented a year-on-year increase in own funds of €87m, comprising a rise in Common Equity Tier 1 capital and a reduction in Tier 2 capital.

The slight increase in Common Equity Tier 1 capital by 2.7% to €4,579m was due to effects resulting from the 2018 annual financial statements, especially the retention of parts of the annual profit.

Tier 2 capital declined by €32m from €807m as of 31 December 2018 to €775m as of 31 December 2019. This change was due to the reduced eligibility of Tier 2 capital instruments under the CRR in the last five years before their maturity.

Risk-weighted assets rose by €3,208m from the previous year's figure of €29,021m to €32,229m as of 31 December 2019. For market risk, the increase of €2,921m to €9,269m was mainly attributable to an increase in general interest rate risk. In credit risk, the increase of €403m to €19,147m resulted mainly from the expansion of business in the Financing business division. Operational risk fell by €122m to €3,243m. CVA risk remained almost unchanged year-on-year at €570m.

As of 31 December 2019, the Common Equity Tier 1 capital ratio stood at 14.2% (31 December 2018: 15.4%). The Tier 1 capital ratio as of the reporting date was 15.7% (31 December 2018: 17.0%). The total capital ratio fell from 19.8% as of 31 December 2018 to 18.1% at the reporting date.

Taking account of the requirements of the SREP (Supervisory Review and Evaluation Process), DekaBank had to comply at Group level with a phase-in Common Equity Tier 1 capital ratio of at least 9.04% as at 31 December 2019. This capital requirement is made up of the Pillar 1 minimum requirement (4.5%) plus the Pillar 2 requirement (P2R) (1.25%), the capital conservation buffer (2.5%), the countercyclical capital buffer (approximately 0.29% as of year-end 2019) and the capital buffer for other systemically important banks (0.5%). The capital requirement for the total capital ratio with transitional provisions (phase-in) was 12.54%. Both requirements were clearly exceeded at all times.

Deka Group own funds *in €m (Fig. 15)*

	31 Dec 2019		31 Dec 2018	
	CRR/CRD IV (without transitional provisions)	**CRR/CRD IV (with transitional provisions)**	**CRR/CRD IV (without transitional provisions)**	**CRR/CRD IV (with transitional provisions)**
Common Equity Tier 1 (CET1) capital	4,579	4,579	4,460	4,460
Additional Tier 1 (AT1) capital	474	489	474	495
Tier 1 capital	**5,053**	**5,069**	**4,933**	**4,954**
Tier 2 (T2) capital	775	775	807	807
Own funds	**5,828**	**5,844**	**5,741**	**5,762**
Credit risk	19,147	19,147	18,744	18,744
Market risk	9,269	9,269	6,348	6,348
Operational risk	3,243	3,243	3,365	3,365
CVA risk	570	570	565	565
Risk-weighted assets	**32,229**	**32,229**	**29,021**	**29,021**
%				
Common Equity Tier 1 capital ratio	**14.2**	**14.2**	**15.4**	**15.4**
Tier 1 capital ratio	**15.7**	**15.7**	**17.0**	**17.1**
Total capital ratio	**18.1**	**18.1**	**19.8**	**19.9**

The leverage ratio determined in accordance with the Delegated Regulation of 17 January 2015, i.e. the ratio of Tier 1 capital to total assets (leverage ratio exposure), adjusted in line with regulatory requirements, stood at 4.9% as at 31 December 2019 (year-end 2018: 4.6%). Taking account of the phase-in provisions, the leverage ratio for the Deka Group was 4.9% (year-end 2018: 4.6%). This increase was attributable to a rise of €120m in Tier 1 capital, accompanied by a reduction in leverage ratio exposure by €4,068 m – in line with the development of total assets. This was at all times substantially above the minimum leverage ratio of 3.0% to be adhered to from June 2021 onwards.

The MREL ratio as at the reporting date was approximately 22%, considerably above the statutory minimum.

Macroeconomic stress tests

Macroeconomic stress testing was expanded to the normative perspective in the reporting year. In the economic perspective, the methodological change resulted in a significant increase in risk capacity utilisation in the stress scenarios, just as it did in the current situation.

The in-depth analysis of the results of the macroeconomic stress scenarios in both perspectives also takes into account their probability of occurrence and lead time, as well as the possible mitigation measures available if necessary. Under this approach, the internal thresholds were complied with at all times during the reporting period and at the reporting date in all the scenarios examined, and no action was required in relation to capital adequacy.

Liquidity adequacy in financial year 2019

The Deka Group continued to have sufficient liquidity, measured using the liquidity balances and LCR, throughout the reporting period.

Economic perspective

There were clear positive liquidity balances in all relevant maturity bands of the "combined stress scenario" funding matrix for periods of up to 20 years. This was also the case for the alternative stress scenarios. Limits were complied with throughout the 2019 financial year.

As at 31 December 2019, the accumulated liquidity balance of the Deka Group's "combined stress scenario" funding matrix in the short-term range (up to one week) stood at €5.5bn (year-end 2018: €8.7bn). In the maturity band of up to one month, the liquidity surplus totalled €11.8bn (year-end 2018: €11.4bn), and in the medium-term range (three months) it amounted to €12.7bn (year-end 2018: €15.2bn).

As in previous years, a substantial part of the Group's liquidity generation and provision was attributable to business with savings banks and funds. In relation to the net cash flows of €–10.9bn to day 1, the Deka Group has a high liquidity potential (€13.2bn) that is readily convertible at short notice. The Group has access to a large portfolio of liquid securities, which are eligible as collateral for central bank borrowings, as well as to available surplus cover in the cover pool and corresponding repo transactions. The strict requirements concerning the liquidity potential ensure that the securities used for this purpose can generate liquidity even in a stressed market environment.

"Combined stress scenario" funding matrix of Deka Group as at 31 December 2019 *€m (Fig. 16)*

	D1	>D1-1M	>1M-12M	>12M-5Y	>5Y-20Y	>20Y
Liquidity potential (accumulated)	13,175	14,792	2,651	−237	137	213
Net cash flows from derivatives (accumulated)[1]	−315	2,245	5,829	4,768	4,335	4,355
Net cash flows from other products (accumulated)	−10,573	−5,274	2,108	3,511	−1,253	−4,517
Liquidity balance (accumulated)	**2,287**	**11,764**	**10,588**	**8,042**	**3,219**	**50**
For information purposes:						
Net cash flows from derivatives by legal maturity (accumulated)[1]	−315	−381	−1,018	−2,544	−789	4,355
Net cash flows from other products by legal maturity (accumulated)	−9,755	−14,345	−24,998	−9,458	−6,967	−5,436
Net cash flows by legal maturity (accumulated)	**−10,069**	**−14,727**	**−26,016**	**−12,001**	**−7,756**	**−1,081**

[1] Including lending substitute transactions and issued CLNs

As at 31 December 2019, 58.6% (year-end 2018: 64.0%) of total refinancing related to repo transactions, overnight and time deposits and other money market products. The remainder of the refinancing concerned capital market products, primarily with longer maturity profiles. Structured issues made up 63% of total capital market issues. The refinancing profile for lending business was well balanced, given the maturity structure.

Money market refinancing remained broadly diversified across a range of investor groups. Most of the investors in money market refinancing are financial service providers such as clearing houses, stock exchanges and funds, or large banks and savings banks. Savings banks accounted for 11.7% of money market refinancing, while funds represented 27.0%.

Some 62.8% of total refinancing was obtained in Germany and other eurozone countries. Approximately 29.6% of total refinancing was accounted for by issues of bearer securities that cannot be attributed to any buyer country.

Normative perspective

The liquidity and funding position remained sufficient , as expressed in a liquidity coverage ratio (LCR) for the Deka Group of 170.6% as of 31 December 2019. This was an increase of 20.8 percentage points from year-end 2018. In percentage terms, the decline in net cash outflows was greater than the decline in holdings of high-quality liquid assets. The average for the reporting year was 146.1% (previous year: 144.8%). The LCR fluctuated within a range from 131.0% to 170.6%. It was thus always substantially above the minimum limit of 100.0% applicable in 2019.

The regulatory requirements and internal thresholds in relation to the LCR were met throughout the period under review.

Both perspectives (macroeconomic stress tests)

The internal thresholds were complied with in both perspectives at all times, even in the macroeconomic stress testing.

Individual risk types

Counterparty risk

Strategic framework and responsibilities

The credit risk strategy stipulates the parameters for all Deka Group transactions that involve counterparty risk. It applies to all organisational units of the Deka Group and serves in particular as the foundation for the Group's credit risk principles for loans as defined by section 19 (1) KWG and describes the business divisions and segments that are the focus of lending activities – including the specific risk determinants and minimum standards for new business. Furthermore, the credit risk strategy serves to distinguish between the individual risk segments and governs the handling of intra-risk concentrations, cluster risks and exposures to shadow banking entities under the EBA guidelines. All lending decisions that deviate from the credit risk strategy are classified as significant and must be reported in the credit risk report in accordance with MaRisk. Counterparty risks are monitored and managed in accordance with standard principles, regardless of whether the risks stem from trading or non-trading transactions.

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

In accordance with MaRisk, there must be a functional separation in the lending business between the "front office" and the "back office" that extends to the responsible members of the Board of Management. The responsibilities performed by the "front office" particularly include monitoring risks at borrower and portfolio level, reviewing specific items of collateral, early risk identification (administrative office), managing non-performing and troubled loans and making decisions regarding loan-loss provisioning for major exposures. Responsibility for applying risk classification procedures, and for establishing, reviewing and monitoring those procedures is classified as a front office function, as is reporting.

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

The Management Committee for Assets and Liabilities (*Managementkomitee Aktiv-Passiv* – MKAP) and the Risk Management Committee (*Managementkomitee Risiko* – MKR) are responsible for strategically managing counterparty risks and their risk concentrations across all risk types. A number of sub-committees have been assigned to the MKR to deal with counterparty risk. The Rating Committee regularly analyses and assesses the internal rating procedures employed for measuring risk and, where relevant, their inclusion in the pooling system developed in joint projects with Rating Service Unit GmbH (RSU) and S-Rating und Risikosysteme GmbH (SR). The Monitoring Committee is responsible for regularly analysing and discussing matters in connection with the methods and procedures employed for early risk identification as well as for monitoring and managing exposures with increased counterparty risk (non-performing loans and those on the watch list). The duties of the Risk Provisioning Committee include regularly analysing and discussing matters in connection with the planning, monitoring and management of risk provisions for loan losses, and also monitoring and managing defaulted exposures (restructuring and liquidation cases) in the lending business as well as in the securities portfolios not recognised at fair value through profit or loss.

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

Management and limit-setting

The Deka Group uses different tools to manage its counterparty risk: overall analysis at the total portfolio level and a multi-level system of volume-based limits.

Portfolio model

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

Operating management limits

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

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

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

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

Quantification of counterparty risk

Market prices are always used to determine gross counterparty risk. In the case of products for which there is no observable market value, the net present value is used. The outstanding receivable amount is used for advance performance risk and open items. The adjusted gross position is then calculated by deducting specific insolvency-proof collateral. The overall net position is arrived at by deducting additional collateral and positions that reduce risk, with valuation of collateral following the internal regulations that apply in each case.

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

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

The internal rating systems currently used are tailored to different risk segments, including corporates, banks, governments, funds and specialised financing. The rating systems include conventional scorecard models and models in which the probability of default is estimated using simulated macro and micro scenarios for risk drivers and expected cash flows. The regulator has approved the rating systems for the foundation internal ratings-based approach (IRBA).

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

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

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

The CVaR and, for information purposes, the expected shortfall (ES) are key figures for management decisions and are both determined with a holding period of 250 trading days and a confidence level of 99.9%. Risk concentrations are taken into account by considering the dependency structure of risk factors. In particular, the modelling approach selected considers dependencies between crisis events. In addition to the CVaR from the credit portfolio model, the CVaR for certain guarantee funds and fund units in the Group's own investment portfolio are also taken into account, along with the expected shortfall (ES).

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

Management and monitoring of counterparty risks

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

Daily management and monitoring of counterparty risk uses a volume-based limitation of the net position and the adjusted gross position.

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

The Risk Control corporate centre monitors the limits using a centralised limit monitoring system at both the borrower-unit level and the borrower level. A comprehensive and market-based early warning system ensures that the individual counterparties subject to limits are monitored so that, in the event of extraordinary developments, countermeasures can be taken at an early stage. At a portfolio level, an analysis of the most significant borrowers and sectors is also carried out, based on CVaR. Maximum country limits are derived from a limit matrix, which is calculated based on a foreign currency (FC) country rating and the gross domestic product. Individual country limits within the limit matrix are approved by the Country Risk Committee. The Risk Control corporate centre monitors compliance with the respective country limits. Overruns are reported immediately to the members of the Country Risk Committee and to the Capital Markets Credit Risk Management unit. This unit acts as the central administrative office for country limits. An analysis of the most significant countries or regions is also carried out from a portfolio perspective, based on CVaR.

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

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

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

The Group's collateral policy defines the eligibility criteria for securities borrowed by counterparties or received as collateral in repo lending transactions. In addition, risk concentrations are restricted using category-specific concentration limits for equities and bonds, as well as a concentration limit (volume restriction) for each counterparty that applies across all categories.

The Capital Markets business division is responsible for compliance with the requirements of the collateral policy. It is supported operationally in this regard by the Capital Markets Collateral Management unit. A review independent of trading is performed daily by the Risk Management unit. Market- and counterparty-specific matters that could significantly affect the risk profile or profitability of the Capital Markets business division are analysed in the Risk Talk, which takes place every two weeks. In addition, an analysis of collateral is reported to the MKAP on a monthly basis.

Performance of stress tests

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

Default monitoring

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

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

DekaBank determines loan loss provisions and provisions for off-balance sheet lending business in accordance with the expected credit loss model under IFRS 9. Details of this methodology can be found in the notes to the consolidated financial statements

Current risk situation

The counterparty risk determined on the basis of the credit value at risk (CVaR), with a confidence level of 99.9% and a holding period of one year, declined moderately in the reporting year to €1,354m (year-end 2018: €1,416m). Risk capital allocated to counterparty risk stood at €1,835m (year-end 2018: €1,905m). Utilisation of this amount was 73.8% (year-end 2018: 74.3%). The level of risk capacity utilisation therefore remained non-critical. The decline in the CVaR resulted primarily from a reduction in bond holdings in the Strategic Investments unit and from methodological changes to bring the determination of loss ratios into line with the IFRS 9 approach. The volume increase for guarantee products slightly offset the decline in risks.

The risk position of the cluster portfolio was assessed using an expected shortfall redistribution, which also resulted in a moderate decrease compared to the previous year. Risk concentration within the ten largest counterparty clusters remained almost unchanged as a proportion of the overall portfolio. Risk concentration thus remained in line with the Deka Group's credit risk strategy.

Gross loan volume fell by €9.7bn from the end of 2018 (€151.3bn) to €141.5bn. A large part of the decline was attributable to the financial institutions risk segment, where there was an impact from lower deposits with Deutsche Bundesbank and a decline in the bond volume. Another reason was the reduction of the repo lending volume with central counterparties. Increased money market transactions and rising market values of interest rate hedging instruments in the savings banks risk segment created an opposing effect. A higher bond volume in the corporates and public sector international risk segments also had an upward effect on gross loan volume. The public sector Germany risk segment was marked by rising volumes for German government and federal state-issued bonds, an increase in municipal loans, a decline in risk-reducing cash collateral accepted for interest rate hedging transactions, and rising market values of interest rate hedging instruments. Volume in the lending business also exceeded the prior-year figure. This was due to a variety of financing loans for infrastructure, transport, export and real estate, the vast majority of which were secured. The ship portfolio's share of gross loan volume rose slightly to 1.0% (year-end 2018: 0.7%). Given the continuing difficult market environment, the ship financing portfolio is still being closely followed and monitored on an ongoing basis.

Gross loan volume *€m (Fig. 17)*

	31 Dec 2019	31 Dec 2018
Financial institutions	63,226	84,522
Savings banks	10,548	7,358
Corporates	13,792	12,792
Public sector International	3,953	2,726
Public sector Germany	11,532	7,541
Transport and export finance	6,402	6,192
Property risks	11,492	10,039
Funds (transactions and units)	16,186	16,347
Other	4,416	3,772
Total	**141,548**	**151,288**

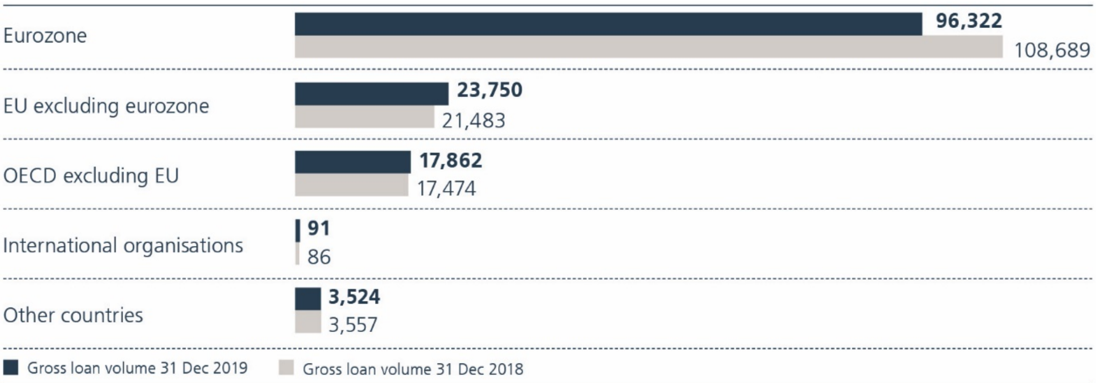
The net loan volume fell by €6.3bn from €71.5bn at year-end 2018 to €65.3bn. This decline was significantly smaller than the fall in gross loan volume. This was because the decline in business volume resulted in lower deductions for secured lending when converting from gross to net loan volume. This mainly reflected the offsetting of reverse repo transactions, especially as a result of the decreased volume of reverse repos in the financial institutions risk segment. The decline in volume in the financial institutions risk segment, which was also visible after netting, was primarily due to lower deposits with Deutsche Bundesbank. The volume of lending to savings banks and the German public sector had a compensatory effect in net terms as well as in gross terms. Securing of loans in the transport and export finance and property risks risk segments meant that the increase was lower than that for gross loan volume.

Net loan volume *€m (Fig. 18)*

	31 Dec 2019	31 Dec 2018
Financial institutions	20,826	33,559
Savings banks	10,292	7,064
Corporates	6,970	6,900
Public sector International	1,254	1,469
Public sector Germany	9,168	7,108
Transport and export finance	589	820
Property risks	2,600	2,046
Funds (transactions and units)	9,157	8,810
Other	4,416	3,770
Total	**65,273**	**71,545**

A substantial portion of the decline in gross loan volume related to the eurozone, owing to the lower level of Bundesbank deposits, the low repo volume with the central counterparty EUREX, the reduction in repo transactions with counterparties in Germany and France, and the reduced lending volume in Germany, Luxembourg and Belgium. Gross loan volume in the eurozone fell to 68.0% of total gross loan volume from 71.8% at the end of 2018. The gross loan volume attributable to Germany fell by €9.5bn to €58.1bn. In the eurozone, €15.7bn of the gross loan volume was attributable to counterparties in Luxembourg. Counterparties in France accounted for 6.0% of the gross loan volume, and counterparties in Belgium accounted for 3.1%. At €23.7bn, gross loan volume in EU countries outside the eurozone was higher than at the end of 2018, primarily due to increased volumes of repo lending, bond trading and loans with counterparties in the UK. Due to the Brexit negotiations, the country and sovereign limit for the UK continues to be closely monitored. In the OECD countries outside the European Union, the slight increase was due in particular to a greater exposure to bonds and securities lending with US counterparties and to transport and real estate financing in North America. Meanwhile, there was a reduction in the volume attributable to financial institutions in Switzerland.

Gross loan volume by region *€m (Fig. 19)*



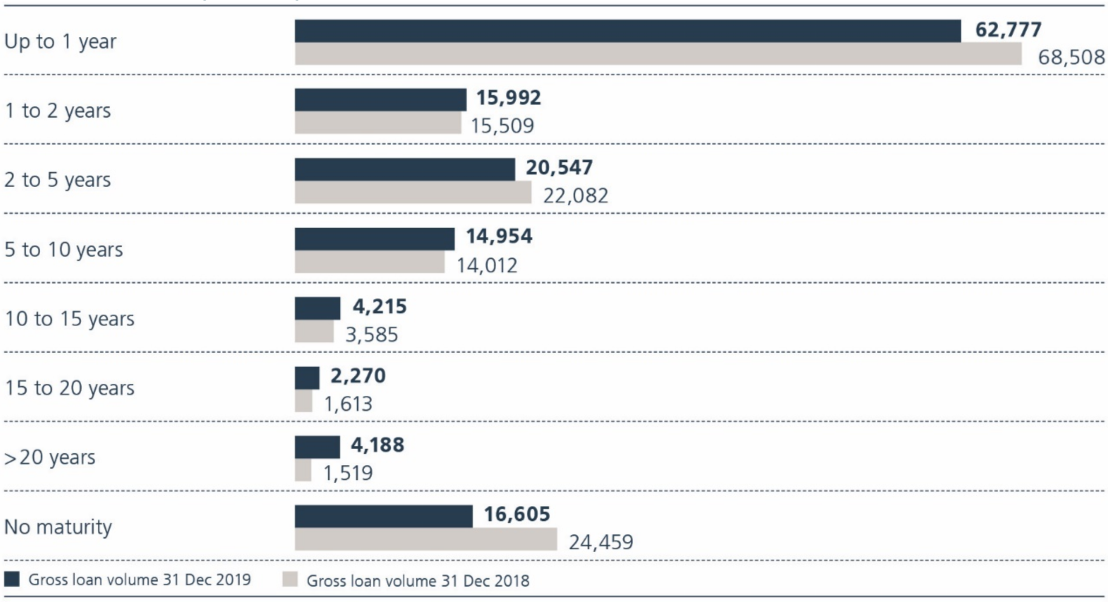
The gross loan volume attributable to borrowers in Italy declined from €1.2bn at the end of 2018 to €1.1bn. The relevant country limit was also substantially reduced in the course of the year. Due to the collateralisation provided by repo/lending transactions, the security provided for the bond portfolio using protection buyer CDS and the securing of loans through, for example, ECA guarantees, the net loan volume attributable to borrowers in Italy, Spain and the UK was lower than the gross loan volume.

Gross loan volume by risk segment for selected countries as at 31 December 2019 *€m (Fig. 20)*

	Italy	Spain	United Kingdom	United States
Financial institutions	388	2,834	16,452	3,009
Corporates	161	362	1,922	2,120
Public sector International	187	118	1,215	840
Transport and export finance	176	0	262	860
Energy and utility infrastructure	0	97	128	58
Property risks	191	1	2,374	3,026
Funds (transactions and units)	0	1	1	0
Other	8	37	129	0
Total	**1,110**	**3,450**	**22,484**	**9,912**
Change vs. previous year				
Financial institutions	84	909	1,100	506
Corporates	1	2	232	121
Public sector International	–34	40	598	760
Transport and export finance	–28	0	63	182
Energy and utility infrastructure	0	44	128	–28
Property risks	–59	0	161	234
Funds (transactions and units)	0	1	–43	0
Other	–7	–4	6	0
Total	**–43**	**991**	**2,246**	**1,774**

The gross loan volume remained focused primarily on the short-term segment at the end of 2019. The proportion of transactions with a time to maturity of less than one year was 44.4% (year-end 2018: 45.3%). The proportion of maturities longer than ten years was 7.5%, compared with 4.4% at 31 December 2018. The average legal residual term of gross lending was 3.5 years (year-end 2018: 2.6 years).

Gross loan volume by maturity *€m (Fig. 21)*



There was no significant change in the level of risk concentration in the loan portfolio during the reporting year. As at 31 December 2019, 20.9% (year-end 2018: 18.3%) of total gross loan volume was attributable to borrower units with a gross limit of at least €2.5bn or an overall net limit of at least €1.0bn (counterparty clusters). The number of counterparty clusters remained unchanged year-on-year at 26. Of the cluster portfolio, 32.4% related to counterparties in the German public sector, the savings banks and other alliance partners. A total of 17.9% of net loan volume related to counterparty clusters (year-end 2018: 15.9%).

The Deka Group also limits the shadow banking entity portfolio in accordance with EBA requirements. Shadow banking entities include, among others, money market funds, credit funds and inadequately regulated credit institutions. In addition to the overall limits imposed on shadow banking entities, limits are imposed based on the principal and fallback approaches. This does not affect the limits at the level of individual counterparties. As in the previous year, less than 3% of net loan volume as at 31 December 2019 related to shadow banking entities under the principal approach (limit utilisation of total net risk position: 45%) and less than 1% to shadow banking entities under the fallback approach (limit utilisation of total net risk position: 48%). The levels of utilisation are considered acceptable. This view is backed up by the shadow banking entities' average rating of 3 (principal approach) or AA– (fallback approach) on the DSGV master scale.

For the gross loan volume, there was an improvement in the average rating score by one notch to a rating of 2 on the DSGV master scale. The average probability of default as at 31 December 2019 was 14 basis points (bps) (year-end 2018: 15 bps), mainly due to an improved rating for ECA-backed export financing in Angola. For the net loan volume, the average rating score remained unchanged at A–. The probability of default remained constant at 9 bps. 84% of net loan volume remained in the same grouping (determined by rating class) as at the end of 2018. The target rating under the credit risk strategy was achieved for both the gross and net loan volumes.

Net loan volume by risk segment and rating *€m (Fig. 22)*

	Average PD in bps	Average rating 31 Dec 2019	31 Dec 2019	Average PD in bps	Average rating 31 Dec 2018	31 Dec 2018
Financial institutions	7	A	20,826	5	A+	33,559
Savings banks	1	AAA	10,292	1	AAA	7,064
Corporates	14	2	6,970	12	2	6,900
Public sector International	7	A	1,254	8	A	1,469
Public sector Germany	1	AAA	9,168	1	AAA	7,108
Public infrastructure	20	3	1,273	16	3	984
Transport and export finance	79	7	589	176	9	820
Energy and utility infrastructure	42	5	2,749	55	6	2,052
Property risks	10	A–	2,600	9	A–	2,046
Retail portfolio	3	AA	394	3	AA	733
Funds (transactions and units)	11	2	9,157	10	A–	8,810
	9	**A–**	**65,273**	**9**	**A–**	**71,545**

Market price risk

Strategic framework and responsibilities

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

Market price risks need to be considered in the Asset Management divisions, in the Capital Markets business division and in the Treasury corporate centre. Market price risks in the Financing business division are passed on to the Treasury corporate centre.

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

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

The MKR and MKAP make recommendations with respect to the definition of the framework for the management of strategic market price risk positions to the Board of Management, which then adopts resolutions accordingly. The MKR issues recommendations on changes to the capital allocation in the economic perspective during the year, on thresholds for the Common Equity Tier 1 capital ratio in the normative perspective and on limiting interest rate risks in the banking book using an earnings-based approach. The MKAP gives recommendations on the operational management of interest rate risks in the banking book using an earnings-based approach. In its capacity as a sub-committee, the Risk Talk supports the MKR and the Board of Management in relation to the Capital Markets business division's operational processes for managing and monitoring market price risk. To do so, it conducts in-depth analysis on a range of issues relating to market and counterparty risks and makes recommendations and binding decisions on matters that might materially influence the Capital Markets business division's risk profile or profitability. These committees make an important contribution to communication between the departments responsible for the control and monitoring of market price risks. In terms of the management of guarantee products, the Board of Management is supported by Treasury and the MKAP, and particularly by a special central sub-committee of the MKAP for guarantee products. The aim of this sub-committee is to ensure a comprehensive overall picture of the guarantee products at the Deka Group.

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

Management and limit-setting

In the economic market price risk calculation, risk ratios are calculated on a net-present-value basis using the value-at-risk approach and with scenario analyses. The basis for daily market price risk monitoring (including interest rate risk in the banking book) is a system of operational limits that is consistent with the Group's overall risk-bearing capacity. This system defines limits in line with the business model for the various portfolio levels and risk categories. It also takes into account the focal areas of the portfolio determined by the business model. In addition, limits are set based on operating metrics such as sensitivities. These are primarily used for operational management of the capital markets business in order to monitor adherence to the risk strategies on an ongoing basis. In addition to the net-present-value approach, interest rate risks in the banking book are also calculated and limited using an earnings-based approach. Stop-loss limits are another management tool for limiting losses. In the event that a limit is exceeded, the MKAP formulates recommendations for the Board of Management on mitigation measures, while the MKR is responsible, if required, for recommending measures in relation to risk appetite.

Value-at-Risk (VaR)

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

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

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

To determine VaR, a sensitivity-based Monte Carlo simulation is used across all portfolios. This simulation ensures that all market price risks are identified in an integrated manner. The selection of risk factors is closely based on business activities and on the focal areas of the portfolio determined by the business model. Issuer-specific curves for credit spread risk are of particular importance. Appropriate consideration is given to credit spread risks, using the relevant credit spread curves, and basis risk.

Sensitivity-based management metrics

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

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

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

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

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

Scenario considerations and stress analyses
The limit system is supplemented with regular market price risk-specific stress tests. Using these tests, the sensitivity of the portfolio is constantly tested with regard to a wide variety of trends in the various risk factors. Once again, the focus is on risks that are particularly relevant, using separate, portfolio-specific analyses.

Market price risk-specific stress tests take place at both overall portfolio level and for the banking book in isolation.

Market price risks are also an important component of the analysis of significant macroeconomic scenarios across all risk types.

Interest rate risk in the banking book using the earnings-based approach
Under the earnings-based approach, interest rate risk in the banking book is measured using the net interest income from changes in interest rates. In the EaR approach, net interest income is simulated using various hypothetical shifts in the reference yield curve for each currency and compared to a reference scenario (using a reference yield curve applicable at the measurement date).

The scenarios used to measure interest rate risk in the banking book under the earnings-based approach are also part of the net present value scenarios for the banking book. The various hypothetical shifts in the reference yield curve for each currency are used consistently in both approaches.

Interest rate risk in the banking book under the earnings-based approach is calculated each quarter and monitored. The scenarios look at the three years following the date on which the calculation is based. The results of the change in net interest income at Group level are limited for each stress scenario and annual tranche. A dedicated escalation process must be adhered to in the event of any limit breaches.

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

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

Current risk situation
In the context of risk-bearing capacity, market price risk at the Deka Group (value-at-risk, confidence level 99.9%, holding period of one year) as at the reporting date stood at €363m. The decline since the end of 2018 (€520m) was primarily due to lower risk from guarantee products as a result of the use of a risk-free yield curve to calculate the market price risk on guarantees and a positive stock market performance. Another contribution to the decline in risks came from market-driven changes, which were reflected in the correlation effects between credit spread risk and general interest rate risk and in a fall in interest rate risk.

With a confidence level of 99% and a holding period of ten days, market price risk (value-at-risk), excluding guarantee risks, stood at €41.8m as at the reporting date (year-end 2018: €50.6m). The decline in risk resulted primarily from the aforementioned fall in interest rate risks, especially in the Treasury corporate centre. Utilisation of the operational management limit at Deka Group level (excluding guarantees) stood at €76.5m (year-end 2018: €71m). This represented a utilisation level of 55% and was therefore non-critical.

Deka Group value-at-risk excluding guarantee risks[1] (confidence level 99%, holding period ten days)
€m (Fig. 23)

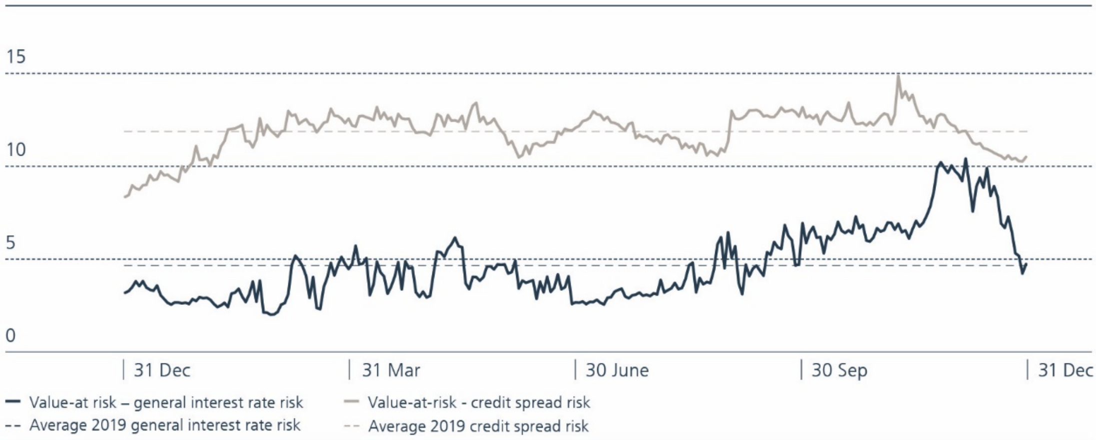
	31 Dec 2019						
Category	**Asset Management Securities business division**	**Asset Management Real Estate business division**	**Asset Management Services business division**	**Capital Markets business division**	**Treasury**	**Deka Group excluding guarantees**	Change in risk
Interest rate risk	0.0	0.2	3.9	35.9	10.8	42.9	–16.7%
Interest rate – general	0.0	0.2	4.4	5.0	5.8	13.8	–8.0%
Credit Spread	0.0	0.0	1.8	38.2	11.9	48.3	0.6%
Share price risk	0.2	1.3	0.3	5.0	0.0	5.1	4.1%
Currency risk	0.0	0.0	0.0	0.8	3.1	3.8	18.8%
Total risk	**0.2**	**1.3**	**3.9**	**34.9**	**11.3**	**41.8**	–17.4%

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

At the end of 2019, the VaR for credit spread risk totalled €48.3m, which was close to the level seen at year-end 2018 (€48.0m). In line with the business model, risk concentration in terms of credit spread risk was mainly attributable to German, western European and US bonds issued by the public sector, financial institutions and corporates. Risk concentration for credit spread risk at the end of 2019 was consistent with the Deka Group's market price risk strategy.

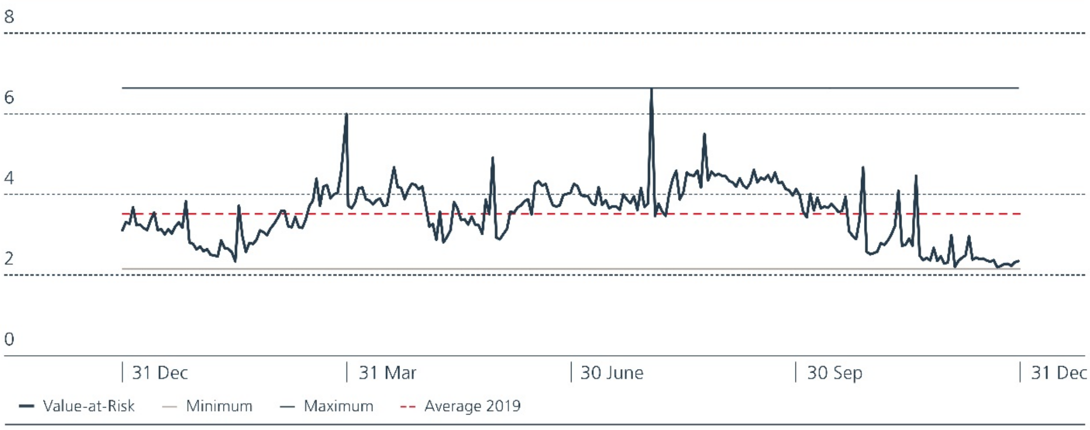
The VaR for general interest rate risk (excluding risks on guarantee products) decreased from €15.0m at year-end 2018 to €13.8m. In addition to the market-driven development already mentioned, this was due to a change in the interest rate delta calculation.

Value-at-risk – General interest rate risk and credit spread risk in the Capital Markets trading book over the course of 2019 *€m (Fig. 24)*



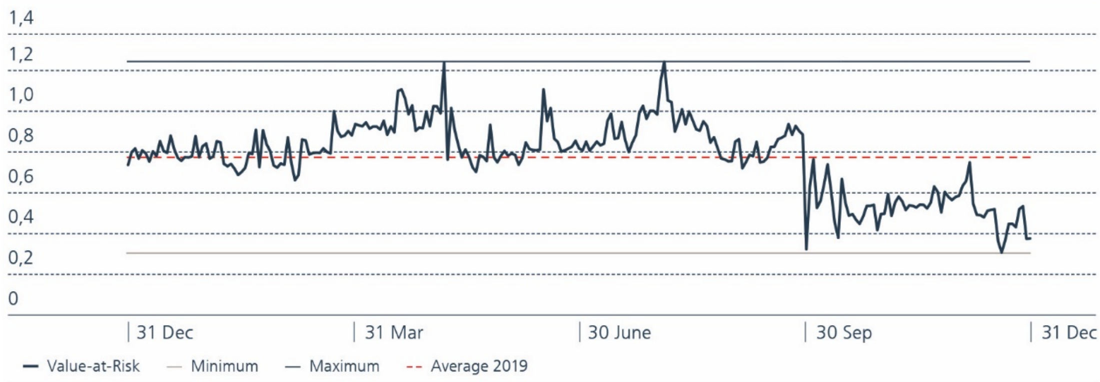
Share price risk rose compared with the year-end figure for 2018 (€4.9m) to €5.1m and remained insignificant. Share price risk in the Capital Markets business division trading book totalled €2.3m (year-end 2018: €3.1m).

Value-at-risk – Share price risk in the Capital Markets trading book over the course of 2019 *€m (Fig. 25)*



As in the previous year, currency risk resulted mostly from positions in US dollars and British pounds. It stood at €3.8m (year-end 2018: €3.2m) and continued to be of minor significance. The increase resulted mainly from changes in holdings of sterling in the Treasury corporate centre. Currency risk in the Capital Markets business division trading book stood at €0.4m (year-end 2018: €0.8m).

Value-at-risk – Currency risk in the Capital Markets trading book over the course of 2019 *€m (Fig. 26)*



Operational risk

Strategic framework and responsibilities

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

Roles and responsibilities

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

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

The Operational Risk unit is responsible for central components of standardised operational risk management, especially the methodological approach, independent OR reporting, and provision of quality assurance and specialist support for local units implementing the management methods. The risk modelling unit is responsible for designing and enhancing the model used to quantify operational risks, while the model risk management and validation unit is responsible for independently validating it.

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

Cross-divisional functions

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

In the annual Fraud Prevention Forum, the Central Office for financial crime and the Operational Risk unit work closely with representatives of the business divisions and corporate centres to identify and assess scenarios regarding other criminal offences (such as employee fraud). In its role as the Forum's sponsor, the Operational Risk unit provides the Forum with information on loss events and identified fraud scenarios, and incorporates the assessments developed at the Forum into the OR records as scenario analyses.

The Data Protection Officer informs and advises DekaBank's Board of Management, the senior management of Deka Group companies and the employees specifically involved in data processing with regard to their obligations under the General Data Protection Regulation (GDPR) and other data protection rules and regulations of the European Union and other jurisdictions. In the event of changes to legislation, the officer initiates changes to organisational structures, IT systems or business processes. The officer monitors compliance with all data protection requirements in the event of changes to IT systems or changes in structures and workflows, conducts regular control procedures and reports directly to the Board of Management and the senior management of Deka Group companies at least once a year.

The BCM/ISM unit advises the DekaBank Board of Management, the senior management of Deka Group companies and the units providing security in the first line of defence (e.g. IT, HR, facility management) on all issues relating to information security. It provides a catalogue of security measures within this context, which, depending on requirements, provide an adequate level of protection for the Deka Group's information. It reviews compliance with these security measures on a regular basis. Defined procedures are used to identify and evaluate information security risks and make them transparent to risk owners so as to follow up on implementation of risk-mitigation measures and incorporate them into risk reporting. The unit also has a leading supportive role in defining and implementing Business Continuity Management (BCM) across the Deka Group. BCM also looks after all the emergency precautions to protect the Deka Group from damage caused by interruptions to business processes in the event of emergencies and crises. Among other things, the aim is to reduce the likelihood of occurrence of risks that could interrupt business operations.

Outsourcing management at the Deka Group is laid down in the outsourcing strategy and is built on a two-tier model, consisting of a central Outsourcing Management section and local outsourcing units (hybrid vendor management). The Deka Group's Central Outsourcing Management (ZAMD) section lays down overarching governance rules for outsourcing, assists with their implementation and checks compliance with requirements. ZAMD also acts as the link between the Board of Management and the senior management of Deka Group companies on the one hand, and the contacts responsible for outsourcing on the other.

Methods used

The Deka Group uses various methods for the management and control of operational risk. These complement each other and, taken together, enable a comprehensive management process for these risks.

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

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

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

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

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

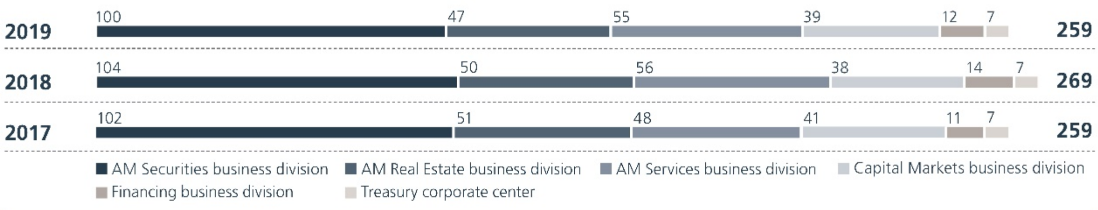
In addition to the macroeconomic stress tests, which cover all types of risk, specific stress scenarios are examined for operational risk. These involve, for example, a sharp deterioration in the reliability of IT infrastructure, the occurrence of serious fraud involving an internal employee or the failure of critical control processes due to a shortage of staff. Sensitivity to isolated stress factors is also analysed and the OR scenarios with the highest contribution to risk examined. The results of the stress tests are determined quarterly and reported to the Stress Testing Committee, the Board of Management, the Risk and Credit Committee and the Administrative Board. They therefore enable the Group to identify areas for action as early as possible if crisis situations start to unfold.

Current risk situation

The VaR for operational risk (confidence level of 99.9%, holding period of one year) fell moderately from €269m at year-end 2018 to €259m. This was due to effects from changes in loss documentation (ex post) and updates to various scenario assessments (ex ante). On the ex-post side, the recording of loss mitigation, and the derecognition of several loss events that were only recorded on a precautionary basis, had the effect of reducing risks. On the ex-ante side, the improvement in the proportion of successfully tested emergency plans, for example, acted as an internal control factor to reduce the risks in various scenario analyses. The changes in business activities in Luxembourg and the associated derecognition of loss scenarios also resulted in a fall in risk. The allocation of VaR to the business divisions and the Treasury corporate centre for internal management purposes resulted in a slight shift from the Asset Management Securities and Asset Management Real Estate business divisions to the other business divisions and the Treasury corporate centre. This was due to the development of loss events described above.

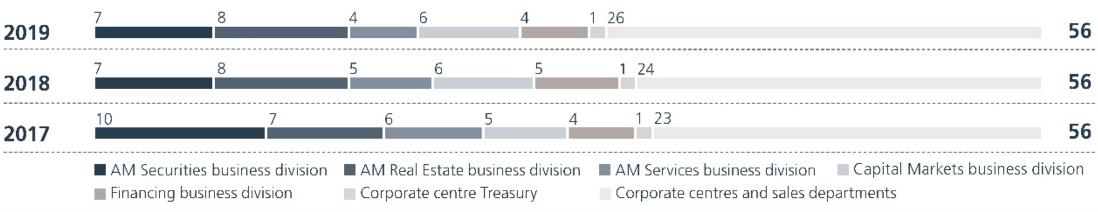
Risk capital allocated to operational risk stood unchanged at €335m. At 77.5%, utilisation remains at a non-critical level.

Value-at-Risk *€m (Fig. 27)*



The OR loss potential identified in the Group-wide risk inventory remained unchanged year-on-year at €56m. The factors increasing and reducing risk almost balanced each other out over the course of the year. For example, the estimated Group-wide risk from business process interruptions due to unavailability of staff or infrastructure was reduced, while there was an increase in loss potential due to the additional inclusion of risks from the incomplete implementation of information security management requirements. In contrast to VaR, which is an upper limit for losses with a specific probability that the limit will not be exceeded, loss potential is an expected value that results from the estimated frequency of occurrence and scale of losses of all OR scenarios in the Deka Group.

Loss potential *€m (Fig. 28)*



In the loss documentation, five major loss events (> €100 thousand) were newly recorded for the reporting period compared with the end of 2019 and two were recorded retrospectively for previous periods. Three of the loss events were attributable to costs and to provisions for labour law disputes. Two resulted from the poor performance of service providers, and another two from internal process-related errors. By contrast, three loss events recorded in previous years, initially on a precautionary basis, were reduced to a symbolic value following completion of the investigations, and one loss event was further mitigated by taking into account a refund payment.

Based on the Federal Ministry of Finance (BMF) circular on the tax treatment of cum/cum transactions of 17 July 2017, tax risks exist in connection with relief from capital yields tax (*Kapitalertragsteuer*) on share transactions made around the dividend record date in the years 2013 to 2015. All matters are reported in the consolidated financial statements as at 31 December 2019 in accordance with DekaBank's interpretation of the relevant tax regulations and accounting standards.

In addition, DekaBank has begun voluntary investigations – which were completed in 2019 – to ascertain whether its involvement enabled third parties to conduct share trades around the dividend record date and make use of abusive tax structures or whether it was otherwise involved in such structures. No evidence to this effect has emerged from these investigations. Based on the findings available to it, DekaBank therefore considers it unlikely that the tax authority will be able to make a claim in relation to these matters.

Business risk

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

Key risk factors for the investment fund business are the planned and actual commission income and expenses and the assets under management (total customer assets). Both assets under management and net commission income depend on customer behaviour and the market environment. Account is taken of fund price movements and unexpected net outflows when determining fund volatility. For banking activities, margins on commission business are taken into account as an additional risk factor. There are currently no business risks to be considered in the Treasury corporate centre.

In addition to regular risk measurement, risk type-specific stress tests are performed for business risk to examine its sensitivity in relation to changes in customer behaviour and changes of a non-legal nature in the economic environment. Net commission income, which is taken into account in business risk, is the major risk driver. Sensitivity analyses examine, for example, the effect of a stock market shock and a decline in net inflows. The effects of hypothetical scenarios (e.g. reputational damage) and historical scenarios are also analysed. The latter scenarios include the market slump during the financial crisis and after the terrorist attacks. The results of the stress tests are determined quarterly and the impacts examined. They serve primarily to identify areas for action.

In the year under review, the VaR for business risk increased significantly to €375m (year-end 2018: €250m). The increase in risk was due primarily to increased volatility of equity funds and a rise in the expected net commission income (which is taken into account in business risk) in the Asset Management Securities and Asset Management Services business divisions. Risk capital allocated to business risk was increased to €440m (year-end 2018: €365m). Utilisation was 85.3% and thus at a non-critical level.

Further investment

Investment risk

Equity investments include all direct and indirect holdings of the Deka Group in other companies, regardless of their legal form. Equity investments held as credit substitute transactions fall under the credit risk strategy. In principle, the Deka Group pursues strategic interests when taking an equity interest. There is no intention to achieve short-term profit.

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

The VaR of investment risk was €44m at year-end 2019, up significantly on the level of €36m at the end of the previous year. The reason for the increase in risk was the significant increase in the IFRS carrying value of an equity investment as a result of the fair value measurement in accordance with IFRS 9. Risk capital allocated to investment risk stood at €70m (year-end 2018: €60m). Utilisation of this amount was 62.2%.

Annual financial statements

Balance sheet *as at 31 December 2019*

Assets				31 Dec 2019	31 Dec 2018
	€	€	€	€	€'000
1. Cash reserves					
a) Cash on hand			7,841.94		10
b) Balances with central banks			3,744,039,163.59	3,744,047,005.53	14,904,565
of which:					
with Deutsche Bundesbank	3,744,039,163.59				(14,904,565)
2. Due from banks					
a) due on demand			4,124,667,791.70		2,437,681
b) other claims			7,069,428,208.26	11,194,095,999.96	7,066,822
of which:					
public sector loans	88,122,170.38				(93,458)
3. Due from customers				24,619,663,468.40	20,889,855
of which:					
mortgage loans	1,331,891,458.50				(1,375,212)
public sector loans	2,587,483,753.14				(1,573,555)
4. Bonds and other fixed-interest securities					
a) Bonds and debt securities					
aa) from public sector issuers		2,685,726,691.35			1,391,111
of which:					
eligible as collateral with Deutsche Bundesbank	2,597,675,365.63				(1,220,376)
ab) from other issuers		10,908,018,722.10	13,593,745,413.45		13,487,439
of which:					
eligible as collateral with Deutsche Bundesbank	6,621,119,375.40				(9,965,323)
b) own bonds			220,954,695.96	13,814,700,109.41	212,611
Nominal amount	219,036,000.00				(210,750)
5. Shares and other non fixed-interest securities				2,777,224,551.68	3,472,653
6. Trading portfolio				41,063,398,802.53	35,121,561
7. Equity investments				27,223,461.32	22,125
of which:					
in banks	117,903.91				(118)
8. Shares in affiliated companies				481,404,642.50	465,085
of which:					
in banks	70,863,811.45				(70,864)
in financial services providers	13,037,291.28				(13,037)
9. Trust assets				119,377,454.81	143,248
10. Intangible assets					
a) Concessions, industrial property rights, and similar rights and values as well as licences there to, acquired for a consideration			10,443,736.00		15,855
b) Goodwill			247,333,332.00		0
c) Advance payments			0.00	257,777,068.00	0
11. Tangible assets				13,055,831.03	14,165
12. Other assets				221,713,651.50	389,750
13. Prepaid expenses and accrued income					
a) from underwriting and lending business			66,784,194.07		62,154
b) other			332,524,296.95	399,308,491.02	367,196
Total assets				**98,732,990,537.69**	**100,463,886**

Liabilities				31 Dec 2019	31 Dec 2018
	€	€	€	€	€'000
1. Due to banks					
a) due on demand			2,537,252,158.88		4,681,444
b) with agreed maturity or period of notice			12,257,381,901.96	14,794,634,060.84	15,614,809
of which:					
registered mortgage Pfandbriefe	20,000,338.80				(0)
registered public sector Pfandbriefe	120,877,491.77				(120,877)
2. Due to customers					
Other liabilities					
a) due on demand			14,017,684,072.48		12,336,174
b) with agreed maturity or period of notice			10,097,446,227.13	24,115,130,299.61	9,258,433
of which:					
registered mortgage Pfandbriefe	5,008,537.12				(5,009)
registered public sector Pfandbriefe	1,545,310,221.28				(1,545,310)
3. Securitised liabilities					
a) bonds issued			7,250,898,016.15		6,082,536
of which:					
mortgage Pfandbriefe	109,527,342.07				(74,541)
public sector Pfandbriefe	760,498,390.87				(760,498)
b) other securitised liabilities			10,721,886,359.66	17,972,784,375.81	9,225,044
of which:					
Money market securities	10,721,886,359.66				(9,225,044)
4. Trading portfolio				34,800,969,689.06	36,520,345
5. Trust liabilities				119,377,454.81	143,248
6. Other liabilities				435,338,765.65	279,993
7. Accruals and deferred income					
a) from underwriting and lending business			20,252,382.16		13,484
b) other			199,580,477.99	219,832,860.15	206,228
8. Provisions					
a) provisions for pensions and similar obligations			15,471,896.28		23,494
b) provisions for taxes			42,739,512.75		69,785
c) other provisions			642,805,961.81	701,017,370.84	446,703
9. Subordinated liabilities				1,314,276,406.75	1,391,901
10. Fund for general banking risks				3,605,603,019.73	3,508,186
of which:					
special item pursuant to Section 340 e (4) HGB	245,431,000.00				(223,692)
11. Equity					
a) Subscribed capital					
aa) subscribed capital		191,729,340.56			191,729
ab) silent capital contributions		52,360,457.03	244,089,797.59		52,360
b) Capital reserve			189,366,198.03		189,366
c) Retained earnings					
ca) reserves required by the Bank's statutes		0.00			51,284
cb) other retained earnings		165,352,188.74	165,352,188.74		114,069
d) Net income			55,218,050.08	654,026,234.44	63,271
Total liabilities				**98,732,990,537.69**	**100,463,886**
1. Contingent liabilities					
Liabilities from guarantees and warranty agreements				4,511,126,074.60	4,044,452
2. Other liabilities					
Irrevocable lending commitments				2,072,967,637.00	2,144,908

Income statement *for the period 1 January to 31 December 2019*

Expenses and income				2019	2018
	€	€	€	€	€'000
1. Interest income from					
a) Lending and money market transactions		838,921,402.68			871,130
of which: negative interest income	91,891,309.68				(70,854)
b) Fixed-interest securities and debt register claims		180,305,428.19	1,019,226,830.87		175,486
of which: negative interest income	0.00				(221)
2. Interest expenses			873,605,093.09	145,621,737.78	835,150
of which: positive interest expenses	131,851,313.67				(115,960)
3. Current income from					
a) Shares and other non fixed-interest securities			8,833,872.39		10,037
b) Equity investments			2,524,602.13		2,275
c) Shares in affiliated companies			28,288,942.60	39,647,417.12	58,451
4. Income from profit pooling, profit transfer and partial profit transfer agreements				378,416,020.52	332,326
5. Commission income			1,260,541,518.30		1,117,151
6. Commission expenses			988,734,420.44	271,807,097.86	881,805
7. Net income/expenses from trading portfolio				195,650,508.20	256,403
8. Other operating income				387,941,458.10	334,161
9. General administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		291,639,158.12			284,795
ab) Social security contributions and expenses					
for pensions and other employee benefits		104,447,766.51	396,086,924.63		66,219
of which:					
for retirement pensions	67,933,340.82				(31,617)
b) Other administrative expenses			418,831,314.90	814,918,239.53	376,778
10. Write-downs and valuation allowances on intangible assets and tangible assets				27,418,700.92	10,223
11. Other operating expenses				213,570,003.39	79,062
12. Write-downs and valuation allowances on receivables and certain securities and allocations to provisions for loan losses				31,205,290.79	92,195
13. Allocations to the fund for general banking risks				75,678,293.54	228,156
14. Write-downs and valuation allowances on equity investments, shares in affiliates and securities held as fixed assets				7,018,709.68	34,368
15. Income from write-ups to equity investments, shares in affiliates and securities held as fixed assets				9,448,348.71	5,821
16. Profit or loss on ordinary activities				253,864,072.38	331,584
17. Income taxes				152,383,542.84	217,423
18. Income transferred under profit pooling, profit transfer or partial profit transfer agreements				46,262,479.46	50,890
19. Net income				**55,218,050.08**	**63,271**
20. Accumulated profit				**55,218,050.08**	**63,271**

Notes

General information

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

1 Preparation of the annual financial statements

The annual financial statements of DekaBank Deutsche Girozentrale for the year ended 31 December 2019 have been prepared in accordance with the provisions of the German Commercial Code (HGB) and the Regulation on Accounting Principles Relating to Financial Institutions and Financial Services Institutions (RechKredV). The provisions of the Pfandbrief Act were also taken into account. The balance sheet structure prescribed for commercial banks was expanded to include line items relating to banks active in the Pfandbrief business.

2 Accounting and valuation methods

General information
The accounting and valuation of assets, liabilities and pending transactions was carried out in accordance with Sections 252 ff, and Sections 340 ff, HGB. Write-ups were carried out in accordance with Section 253 (5) HGB.

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

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

For receivables and liabilities from genuine securities repurchase agreements and derivative transactions, eligible for offsetting with central counterparties on the basis of standardised framework contracts, financial offsetting is carried out provided that the correspondent preconditions are fulfilled. Securities lending transactions were reported in accordance with the principles of Section 340b HGB applicable for genuine repurchase agreements, whereby lent securities are shown under the original line items in the balance sheet. Borrowed securities are not reported in the balance sheet.

Structured products in the trading portfolio and the liquidity reserve are recognised as a single financial instrument on the basis of their measurement at fair value less a risk mark-down (trading portfolio)/at the strict-lower-of-cost-or-market principle (liquidity reserve). Structured liabilities are generally recognised at their settlement amount. There were no host contracts requiring separation as at the reporting date.

Valuation of securities portfolios and derivatives
Securities in the liquidity reserve are valued in accordance with the strict-lower-of-cost-or-market principle, whereby the stock exchange or market price or fair value is decisive.

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

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

Derivative financial instruments are generally measured using recognised models such as the Black-Scholes model, Black-76 model, the SABR model, the Bachelier model, the G1PP model, the G2PP model or the local volatility model. The models are always calibrated using observable market data.

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

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

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

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

On-balance sheet and off-balance sheet interest rate financial instruments in the banking book, which are allocated to the interest book, undergo loss-free valuation pursuant to IDW RS BFA 3. Where, in their entirety, the interest book transactions valued pose a threat of excess liability, a provision is recognised for possible losses from pending transactions. The valuation is carried out on the basis of net present values including refinancing, risk and administration costs. There was no excess liability at the reporting date, therefore the recognition of a provision was not required.

Receivables and commitments arising from derivative financial instruments in the banking book, which are not allocated to the interest book, were valued in line with the imparity principle. For unrealised valuation losses, provisions were recognised for possible losses from pending transactions. Unrealised valuation gains were not recognised as income with the exception of foreign exchange future contracts, which are included as part of currency translation.

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

In addition to the valuation results, the line item 'Net income from trading portfolio' includes ongoing interest payments and dividend income from securities in the trading portfolio, ongoing payments from derivative financial instruments and securities repurchase agreements and securities lending transactions in the trading portfolio, as well as the refinancing costs attributable to the trading portfolios including the corresponding deferrals. Allocations to the fund for general banking risks pursuant to Section 340e (4) HGB (German Commercial Code) are also recognised in this item.

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

Currency translation

Assets and liabilities in foreign currency as well as claims and commitments from foreign exchange transactions in the non-trading portfolio were translated and valued according to the regulations contained in Section 340h in conjunction with Section 256a HGB and also with observance of the Institute of Auditors (IDW) Comments on Accounting (Stellungnahme zur Rechnungslegung) IDW RS BFA 4. The results from the currency translation were in principle recognised in the income statement and reported in other operating income. Only income from foreign exchange transactions, which are not included in any particular cover or valuation unit and also have a remaining maturity of more than one year, was not recognised. Swap premiums from foreign exchange transactions in the non-trading portfolio, which hedges interest-bearing balance sheet items, were accrued on a pro rata basis and reported in net interest income because these forward foreign exchange transactions are valued at the split forward rate.

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

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

Fixed assets

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

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

Provisions for loan losses

Identified default risks in the lending business 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 for on-balance sheet lending have been deducted from the respective asset items. Provisions have been recognised for lending commitments and guarantees.

Loan receivables are checked individually for impairment. In the case of receivables for which there are no specific valuation allowances, the default risk is taken into account by recognising general valuation allowances. General valuation allowances are determined taking borrower ratings, counterparty default history and current economic development into account. The expenses resulting were recognised in the item 'Write-downs and valuation allowances on receivables and certain securities and allocations to provisions for loan losses'.

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

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

- significant financial difficulties on the part of the issuer or debtor
- an actual breach of contract (such as a default or past-due event)
- concessions granted by the lender to the debtor for economic or contractual reasons in connection with the debtor's financial difficulties that the creditor would not otherwise consider
- a high probability that the borrower will enter bankruptcy or other financial reorganisation
- the disappearance of an active market for the financial asset because of financial difficulties
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Provisions

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

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

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

Provisions for taxes and other provisions were recognised in the settlement amount (including future cost and price increases) required according to a reasonable commercial judgement. Medium and long-term provisions with remaining terms of more than one year were discounted using the interest rates published by Deutsche Bundesbank pursuant to Section 253 (2) HGB.

Deferred taxes

Deferred tax assets are not reported, since the existing asset surplus, utilising the option under Section 274 HGB, is not recognised. Deferred tax assets result primarily from measurement differences in relation to shares and non-fixed interest securities, as well as pension provisions. As at the reporting date, there were no measurement differences between the commercial balance sheet and tax balance sheet leading to the recognition of deferred tax liabilities. DekaBank's combined tax rate (31.9%) is used to measure deferred taxes.

3 Derivative transactions

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

Derivative transactions – volume – trading portfolio

	Nominal value		Full fair values positive market values		Full fair values negative market values	
€m	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Interest rate risks						
OTC products						
Interest rate swaps	813,689.2	584,170.0	22,940.6	10,455.2	22,460.2	10,034.4
Forward rate agreements	63,868.0	32,981.0	7.5	2.1	7.6	2.5
Interest rate options						
Purchases	22,917.9	19,850.2	410.8	149.1	171.8	123.4
Sales	26,202.3	22,993.1	333.4	220.1	748.2	388.5
Caps, floors	21,831.6	18,808.1	67.4	55.2	44.4	41.4
Other interest rate futures	6,477.3	2,372.3	105.1	4.8	97.4	66.6
Exchange traded products						
Interest rate futures/ options on interest rate futures	14,753.3	13,316.6	4.7	6.2	2.6	1.9
Total	**969,739.6**	**694,491.3**	**23,869.5**	**10,892.7**	**23,532.2**	**10,658.7**
Currency risks						
OTC products						
Foreign exchange future contracts	12,403.8	13,593.4	156.4	100.5	157.1	103.3
Interest rate/currency swaps	2,193.3	3,068.3	70.4	168.1	52.0	156.4
Currency options						
Purchases	–	0.2	–	–	–	–
Sales	–	0.2	–	–	–	–
Total	**14,597.1**	**16,662.1**	**226.8**	**268.6**	**209.1**	**259.7**
Share and other price risks						
OTC products						
Share options						
Purchases	328.4	437.2	6.9	22.8	–	–
Sales	6,032.5	6,039.7	–	–	1.2	3.6
Credit derivatives	11,087.7	11,312.6	127.0	91.5	129.8	61.6
Other forward contracts	6,233.7	2,655.8	17.4	46.8	105.2	93.6
Exchange traded products						
Share options	20,458.8	21,214.0	461.3	397.0	901.7	1,457.1
Share futures	1,380.0	1,466.0	4.2	84.1	4.0	9.8
Total	**45,521.1**	**43,125.3**	**616.8**	**642.2**	**1,141.9**	**1,625.7**
Total	**1,029,857.8**	**754,278.7**	**24,713.1**	**11,803.5**	**24,883.2**	**12,544.1**
Amount carried in the statement of financial position:			6,492.8	4,611.5	5,886.7	5,408.4

The lower carrying amount of derivatives in the trading portfolio compared with market values is due to the offsetting of market values against the variation margin. Within assets, the variation margin received reduced the fair values by a total of around €18.2bn (previous year: €7.2bn). On the other hand, the paid variation margin reduces market values on the liabilities side by around €19.0bn (previous year: €7.1bn).

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

	Interest rate risks		Currency risks		Share and other price risks	
€m	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Residual term to maturity						
less than 3 months	105,010.3	70,790.6	7,861.2	6,488.6	7,230.4	4,605.0
> 3 months to 1 year	88,078.8	66,065.3	4,497.2	7,871.8	9,394.2	9,780.5
> 1 year to 5 years	364,773.6	275,383.8	1,691.2	1,685.6	27,134.6	26,731.1
> than 5 years	411,876.9	282,251.6	547.5	616.1	1,761.9	2,008.7
Total	**969,739.6**	**694,491.3**	**14,597.1**	**16,662.1**	**45,521.1**	**43,125.3**

Derivative transactions – classification by counterparties – trading portfolio

	Nominal value		Full fair values positive market values		Full fair values negative market values	
€m	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Banks in the OECD	827,002.1	335,014.9	19,255.4	4,670.6	19,597.6	5,863.5
Public sector entities in the OECD	12,543.4	12,378.7	1,560.5	996.1	263.4	161.7
Other counterparties	190,312.3	406,885.1	3,897.2	6,136.8	5,022.2	6,518.9
Total	**1,029,857.8**	**754,278.7**	**24,713.1**	**11,803.5**	**24,883.2**	**12,544.1**

Derivative transactions – volume – non-trading portfolio

	Nominal value		Full fair values positive market values		Full fair values negative market values	
€m	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Interest rate risks						
OTC products						
Interest rate swaps	26,421.4	23,615.4	792.1	772.2	785.2	495.2
Other interest rate futures	8.0	20.0	–	–	–	–
Exchange traded products						
Interest rate futures/ options on interest rate futures	137.1	360.3	0.9	–	–	2.4
Total	**26,566.5**	**23,995.7**	**793.0**	**772.2**	**785.2**	**497.6**
Currency risks						
OTC products						
Foreign exchange future contracts	9,154.4	4,228.6	43.6	19.2	14.9	10.6
Interest rate/currency swaps	12,577.4	10,534.9	136.8	313.4	422.0	351.3
Total	**21,731.8**	**14,763.5**	**180.4**	**332.6**	**436.9**	**361.9**
Share and other price risks						
OTC products						
Share options						
Purchases	–	160.0	–	2.2	–	–
Sales	–	–	–	–		
Credit derivatives	54.0	286.9	0.5	1.1	–	0.8
Exchange traded products						
Share options	121.1	304.5	2.3	14.8	–	–
Share futures	46.2	56.9	–	1.0	0.3	0.1
Total	**221.3**	**808.3**	**2.8**	**19.1**	**0.3**	**0.9**
Total	**48,519.6**	**39,567.5**	**976.2**	**1,123.9**	**1,222.4**	**860.4**

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

Furthermore, a provision for possible losses in the amount of €5.0m was recognised as at the reporting date.

Under EU Regulation No. 648/2012 (EMIR), there is a requirement to perform certain OTC derivate transactions through a central counterparty. The daily settlement of gains and losses to be carried out in this process (variation margin) results in a net liability for the non-trading portfolio of €29.9m. This is recognised in amounts 'Due to customers'.

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

	Interest rate risks		Currency risks		Share and other price risks	
€m	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**
Residual term to maturity						
less than 3 months	1,169.2	817.3	8,190.7	4,484.2	46.2	228.9
> 3 months to 1 year	2,445.4	2,250.8	2,049.4	681.0	58.6	433.0
> 1 year to 5 years	10,747.5	11,377.9	7,364.0	6,654.7	116.5	146.4
> than 5 years	12,204.4	9,549.7	4,127.7	2,943.6	–	–
Total	**26,566.5**	**23,995.7**	**21,731.8**	**14,763.5**	**221.3**	**808.3**

Derivative transactions – classification by counterparties – non-trading portfolio

	Nominal value		Full fair values positive market values		Full fair values negative market values	
€m	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**
Banks in the OECD	28,004.7	16,882.6	232.2	368.4	535.1	366.1
Public sector entities in the OECD	7.1	8.8	–	–	0.4	0.9
Other counterparties	20,507.8	22,676.1	744.0	755.5	686.9	493.4
Total	**48,519.6**	**39,567.5**	**976.2**	**1,123.9**	**1,222.4**	**860.4**

The derivative financial instruments shown in the tables above are exposed to both market price risks and credit risks. Market price risks describe the potential financial loss caused by future market parameters fluctuations. Market price risks comprise interest rate risks (including credit spread risks), currency risks and share price risks. DekaBank understands credit risk as the risk that a borrower, issuer or counterparty does not fulfil his contractually agreed services or fulfil them on time and DekaBank incurs a financial loss as a result. Further information can be found in the risk report which forms part of the Management Report.

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

Name, registered office	Equity interest in %	Equity[1] €'000	Result [2] €'000
Shares in affiliated companies			
DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg	100.00	553,045.0	23,802.0
Deka Investment GmbH, Frankfurt/Main	100.00	93,183.1	212,439.7[3]
S Broker AG & Co. KG, Wiesbaden	100.00	32,783.9	262.1
Deka Immobilien Investment GmbH, Frankfurt/Main	100.00	31,245.1	98,871.5[3]
Deka Vermögensmanagement GmbH, Frankfurt/Main	100.00	10,660.0	33,756.0[3]
Deka Beteiligungsgesellschaft mbH, Frankfurt/Main	100.00	4,151.1	–589.6
bevestor GmbH, Frankfurt/Main	100.00	3,600.0	–6,811.1[3]
Deka Vermögensverwaltungs GmbH, Frankfurt/Main	100.00	365.4	–305.5[3]
Deka Investors Spezial InvAG m.v.K. u. TGV (TGV Unternehmensaktien), Frankfurt/Main	100.00	248.7	–6.5
Deka Treuhand GmbH, Frankfurt/Main	100.00	146.1	13.7
Privates Institut für quantitative Kapitalmarktforschung der DekaBank GmbH, Frankfurt/Main	100.00	49.3	–0.9[3]
LBG Leasing Beteiligungs-GmbH, Frankfurt/Main	100.00	31.4	–0.2
Deka Treuhand Erwerbsgesellschaft mbH, Frankfurt/Main	100.00	25.0	–8.8[3]
Deka Vorratsgesellschaft 03 mbH, Frankfurt/Main	100.00	24.8	–0.3[3]
Deka Vorratsgesellschaft 04 mbH, Frankfurt/Main	100.00	24.8	–0.4[3]
Deka Vorratsgesellschaft 05 mbH, Frankfurt/Main	100.00	24.8	–0.3[3]
Deka Verwaltungs GmbH, Frankfurt/Main	100.00	21.0	–0.5
WestInvest Gesellschaft für Investmentfonds mbH, Düsseldorf	99.74	11,338.6	34,198.8[3]
WIV GmbH & Co. Beteiligungs KG, Frankfurt/Main	94.90	12,845.3	745.3
WIV Verwaltungs GmbH, Frankfurt/Main	94.90	73.3	2.1
Equity investments			
Dealis Fund Operations GmbH i.L., Frankfurt/Main	50.00	32,914.5	903.0
S-PensionsManagement GmbH, Cologne	50.00	26,824.9	147.9
Deka-Neuburger Institut für wirtschaftsmathematische Beratung GmbH, Frankfurt/Main	50.00	18.5	0.5
Indirect shares in affiliated companies			
Deka International S.A., Luxembourg	100.00	89,327.4	11,864.0
International Fund Management S.A., Luxembourg	100.00	17,044.3	7,385.0
Deka Far East Pte. Ltd., Singapore	100.00	1,776.1	1,553.6
Deka Immobilien Luxembourg S.A., Luxembourg	100.00	1,503.2	–441.4
Deka Real Estate Services USA Inc., New York	100.00	1,210.9	1,002.5
Deka Real Estate International GmbH, Frankfurt/Main	100.00	1,138.3	–38.5
S Broker Management AG, Wiesbaden	100.00	205.5	–85.8
Indirect equity investments			
Sparkassen Pensionskasse AG, Cologne	50.00	89,212.0	790.0
Sparkassen Pensionsfonds AG, Cologne	50.00	3,447.0	–712.0
Heubeck AG, Cologne	30.00	6,498.0	2,165.0
Richttafeln-Unterstützungskasse GmbH, Cologne	30.00	232.0	32.0
Compendata Gesellschaft zur Verwaltung von Vorsorgeeinrichtungen mbh, Cologne	30.00	204.0	5.0
Dr. Heubeck Ges. mbH, Viena	30.00	170.0	5.0
Heubeck Richttafeln GmbH, Cologne	30.00	69.0	242.0
DPG Deutsche Performancemessungs-Gesellschaft für Wertpapierportfolios mbH, Frankfurt/Main	22.20	3,986.1	693.7

[1] Definition of equity according to Section 266 (3 A) in conjunction with Section 272 HGB.
[2] Net profit/net loss according to 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., Luxembourg, can meet its commitments.

6 Other financial commitments

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

There is an obligation to put up additional capital amounting to €5.1m for HELICON Verwaltungsgesellschaft mbH & Co. Immobilien KG, Pullach (previous year: €5.1m).

There is an additional funding obligation for the deposit protection reserve of the Landesbanken and Girozentralen of €84.0m (previous year: €62.4m). By 2024, the assets of the deposit protection reserve must be increased to the statutory target level of 0.8% of the covered deposits of its member institutions. The deposit protection reserve collects annual levies from its members for this purpose.

Notes to the balance sheet

7 Due from banks

€m	31 Dec 2019	31 Dec 2018
This item includes:		
Receivables		
to affiliated companies	2.8	56.6
to companies in which an interest is held	58.2	4.4
Subordinated loans	**0.0**	**0.0**
Sub item b (other claims) – breaks down according to residual term to maturity as follows:		
less than 3 months	2,615.5	2,727.3
> 3 months to 1 year	1,724.6	1,031.1
> 1 year to 5 years	2,156.6	2,314.7
> than 5 years	572.7	993.7
	7,069.4	**7,066.8**
Used as cover funds	**29.1**	**443.5**

8 Due from customers

€m	31 Dec 2019	31 Dec 2018
This item includes:		
Receivables		
to affiliated companies	404.6	321.5
to companies in which an interest is held	10.4	10.9
Subordinated loans	**0.0**	**0.0**
This item – Due to customers – breaks down by residual term to maturity as follows:		
with indefinite term to maturity	774.6	760.6
less than 3 months	1,859.2	1,729.2
> 3 months to 1 year	1,656.0	1,350.9
> 1 year to 5 years	11,151.4	10,220.5
> than 5 years	9,178.5	6,828.7
	24,619.7	**20,889.9**
Used as cover funds	**4,134.6**	**3,060.5**

9 Bonds and other fixed-interest securities

€m	31 Dec 2019	31 Dec 2018
This item includes:		
marketable securities		
listed	12,200.8	13,243.2
unlisted	1,613.9	1,848.0
Subordinated securities	**6.6**	**6.4**
Securities due within one year	**2,831.9**	**2,452.2**
Used as cover funds	**307.1**	**335.5**
Book value of securities valued according to the moderate-lower-of-cost-or-market principle	5,017.7	4,846.6
Book value of securities reported at more than fair value	94.2	2,895.3
Market value of securities reported at more than fair value	93.7	2,849.0

The Bank intends to hold those securities allocated to the 'Securities held as fixed assets' category on a permanent basis. These securities are valued under the moderate lower-of-cost-or-market principle. The current value fluctuations are not assessed as permanent and repayment in full is expected on maturity.

The securities measured at the moderate-lower-of-cost-or-market principle were distinguished from the securities measured at the strict-lower-of-cost-or-market principle on the basis of the category applied in the portfolio.

10 Shares and other non-fixed interest securities

€m	31 Dec 2019	31 Dec 2018
This item includes:		
Marketable securities		
listed	0.0	2.9
unlisted	645.0	578.6
Subordinated securities	–	–

11 Trading portfolio (assets)

This item breaks down as follows:

€m	31 Dec 2019	31 Dec 2018
Derivative financial instruments	6,492.8	4,611.5
Receivables	16,718.5	19,766.1
Debt securities and other fixed-interest securities	13,888.1	9,255.8
Shares and other non fixed-interest securities	3,923.8	1,510.9
Other assets	64.7	1.4
Risk mark-down	–24.5	–24.1
Total	**41,063.4**	**35,121.6**

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 €62.1m and amounts due from customers of €57.3m.

15 Tangible assets

This item comprises property, plant and equipment amounting to €13.1m (previous year: €14.2m).

16 Changes in fixed assets

€m						Carrying value	
Asset items	**Cost of acquisition/ production**	**Additions**	**Disposals**	**Accumu-lated de-preciation**	**Depre-ciation for the year**	**31 Dec 2019**	**31 Dec 2018**
		Changes +/– [1]					
Equity investments			5.1			27.2	22.1
Shares in affiliated companies			16.3			481.4	465.1
Securities held as fixed assets			171.1			5,017.7	4,846.6
Intangible assets	154.6	267.6	0.0	164.4	25.7	257.8	15.9
Property, plant and equipment	62.2	0.6	0.0	49.7	1.8	13.1	14.2
Total						**5,797.2**	**5,363.9**

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

€265.0m of the additions to intangible assets relate to acquired goodwill of DekaBank Deutsche Girozentrale Luxembourg branch. As part of the Deka Group's reorganisation in Luxembourg, the depositary that was previously part of DekaBank Deutsche Girozentrale Luxembourg S.A. was transferred to the existing DekaBank Deutsche Girozentrale branch in early May 2019. Goodwill is amortised over an average useful life of ten years. In determining the useful life, it was assumed that business activities will continue unchanged. No significant changes are expected for the future development of the sector or the company.

17 Other assets

€m	31 Dec 2019	31 Dec 2018
This item includes amongst others:		
Tax refund claims	132.0	152.5
Foreign exchange equalisation items	0.0	95.5
Premiums paid and margins for derivative financial instruments	7.2	22.9

18 Prepaid expenses and accrued income

€m	31 Dec 2019	31 Dec 2018
This item includes:		
Premium/discount from underwriting and lending business	66.8	62.2
Prepaid expenses and accrued income – derivative financial instruments	310.5	346.3

19 Genuine repurchase agreements

As at 31 December 2019, the book value of lent securities or securities sold under repurchase agreements amounts to €4,583.7m (previous year: €2,651.8m). Pass-through securities lending transactions of €7,971.8m (previous year: €10,458.2m) were also carried out.

20 Collateral transfer for own liabilities

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

€m	31 Dec 2019	31 Dec 2018
Due to banks	203.3	1,246.2
Due to customers	625.7	625.1
Trading portfolio (liabilities)	8,615.1	14,626.5

The collateral was provided mainly for borrowings as part of genuine repurchase agreements and for open market transactions with Deutsche Bundesbank. In addition, securities with a book value of €1,705.7m (previous year: €2,559.0m) were pledged as collateral for transactions on German and foreign futures exchanges.

21 Investment Shares

€m	Carrying value 31 Dec 2019	Market value 31 Dec 2019	Difference market value – carrying value	Distribution 2019	Daily redemption possible	Omitted depreciation
Equity funds	118.9	122.2	3.3	1.8	Yes	No
Bond funds	952.1	952.9	0.8	4.9	Yes	No
Mixed funds	1,658.0	1,849.8	191.8	0.9	Yes	No
Funds of funds	16.5	17.3	0.8	0.0	Yes	No
Other funds	94.7	107.9	13.2	0.4	No	No
Real estate funds	105.0	105.0	0.0	0.0	No	No
Total	**2,945.2**	**3,155.1**	**209.9**			

22 Due to banks

€m	31 Dec 2019	31 Dec 2018
This item includes:		
Liabilities		
to affiliated companies	722.5	3,405.1
to companies in which an interest is held	–	–
Sub item b (with agreed maturity or period of notice) breaks down by residual term to maturity as follows:		
less than 3 months	5,121.6	6,446.8
> 3 months to 1 year	3,078.4	4,809.5
> 1 year to 5 years	3,091.0	3,768.1
> than 5 years	966.4	590.4
	12,257.4	**15,614.8**

23 Due to customers

€m	31 Dec 2019	31 Dec 2018
This item includes:		
Liabilities to		
affiliated companies	758.4	609.1
companies in which an interest is held	87.1	3,405.9
Sub item b (with agreed maturity or period of notice) breaks down by residual term to maturity as follows:		
less than 3 months	2,892.2	1,750.7
> 3 months to 1 year	2,689.9	2,881.9
> 1 year to 5 years	3,178.3	3,153.7
> than 5 years	1,337.0	1,472.1
	10,097.4	**9,258.4**

24 Securitised liabilities

€m	31 Dec 2019	31 Dec 2018
Proportion of sub item a (issued bonds) maturing in the following year	**1,756.2**	**1,687.3**
Sub item b (other securitised liabilities) breaks down by residual term to maturity as follows:		
less than 3 months	8,017.1	7,478.0
> 3 months to 1 year	2,704.8	1,747.0
	10,721.9	**9,225.0**

25 Trading portfolio (liabilities)

This item breaks down as follows:

€m	31 Dec 2019	31 Dec 2018
Derivative financial instruments	5,886.8	5,408.4
Liabilities	28,914.2	31,111.9
Total	**34,801.0**	**36,520.3**

26 Trust liabilities

Trust liabilities comprise €62.1m in amounts due to banks and €57.3m in amounts due to customers.

27 Other liabilities

€m	31 Dec 2019	31 Dec 2018
This item includes:		
Foreign exchange equalisation items	135.6	–
Bonuses for sales offices	137.7	105.0
Trade payables	47.9	42.5
Share of profit attributable to atypical silent partners	79.1	96.4
Due to custodial customers	3.8	6.9

28 Provisions for pensions and similar commitments

Pension provisions were calculated using the Heubeck mortality tables 2018 G based on the following actuarial parameters:

in %	31 Dec 2019
Pension trend for adjustments according to Section 16 (2) Company Pensions Fund Act (BetrAVG)	1.75
Pension adjustment with overall trend updating	2.25
Salary trend	2.50

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

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

Provisions for pensions and similar commitments are discounted at the average market interest rate of the past 10 years published by Deutsche Bundesbank for an assumed residual time to maturity of 15 years. This interest rate stands at 2.71%. The difference arising under Section 253 (6) HGB between the amount of provision recognised when discounting using an average market interest rate of the past 10 financial years, and the provision amount when discounting using an average market rate of the past seven financial years, is €54.5m.

€m	31 Dec 2019	31 Dec 2018
Provisions for pensions	**15.5**	**23.5**
Acquisition cost of plan assets	344.5	337.8
Fair value of plan assets	521.2	449.4
Settlement amount of offset liabilities	536.7	472.9
Income from plan assets	66.0	– 19.6
Expenses for accumulated interest	15.0	16.0
Excess of plan assets over pension liabilities	0.0	0.0

The valuation of cover assets at fair value produces an amount that exceeds the historical cost of these assets of €176.7m, which is not blocked for distribution in accordance with Section 268 (8) HGB, since the free reserves of the company exceed this figure.

29 Accruals and deferred income

€m	31 Dec 2019	31 Dec 2018
This item includes:		
Premium/discount from underwriting and lending business	20.3	13.5
Prepaid expenses and accrued income – derivative financial instruments	199.6	203.2

30 Subordinated liabilities

€m	31 Dec 2019	31 Dec 2018
Expenses from subordinated liabilities	65.6	64.9
Accrued interest on subordinated liabilities	40.7	43.3

Borrowings structured as follows:

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

There were no new issues during the 2019 financial year. The conversion of these funds into capital or another form of debt has not been agreed and is not planned. There is no early repayment obligation.

31 Equity

The breakdown of equity (excluding profits intended

€m	31 Dec 2019	31 Dec 2018
a) Subscribed capital		
Subscribed capital	191.7	191.7
Atypical silent capital contributions	52.4	52.4
b) Capital reserve	189.4	189.4
c) Retained earnings		
Reserves required by the Bank's statutes	0.0	51.3
Other retained earnings	165.4	114.1
Balance sheet equity	**598.8**	**598.8**

In the 2019 financial year, the reserves required by the Bank's statutes set up in previous years were transferred to other retained earnings in full.

32 Contingent and other liabilities

The off-balance sheet contingent liabilities amounting to €4,511.1m (previous year: €4,044.5m) include guarantees and sureties as well as liabilities under CDS transactions as protection seller. The item primarily includes liabilities arising from warranty obligations in the amount of €4,339.4m (previous year: €3,715.9m) and irrevocable loan commitments of €2,073.0m (previous year: €2,144.9m). Based on the credit rating analyses carried out, it can essentially be assumed that borrowers will meet their commitments and no utilisation is therefore expected. Loan provisions were recognised in individual cases where the default of the borrower is likely.

33 Foreign currency volumes

€m	31 Dec 2019	31 Dec 2018
Foreign currency assets	22,368.0	19,436.1
Foreign currency liabilities	10,742.0	8,644.2

Notes to the income statement

34 Net interest income from trading portfolio

€21.7m (previous year: €28.5m) of the net income from the trading portfolio totalling €195.7m (previous year: €256.4m) was transferred to the fund for general banking risks in the reporting year.

35 Other operating income

Other operating income consists mainly of €288.7m from Group offsetting and €73.9m from the reversal of provisions (including interest effect).

36 Other operating expenses

Among other things, this item includes €186.0m in transfers to provisions (including interest effect). Due to persistent low interest rates, a one-off effect amounting to €140.0m from measures to strengthen the capital for a company in the equity investment portfolio had a negative impact. Furthermore, restructuring expenses of €36.9m were incurred in the reporting year. In addition, this item includes €12.2m in expenses from Group offsetting as well as the currency translation result of €6.3m from non-trading portfolio items.

37 Auditor’s fees

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

38 Income taxes

As DekaBank is treated for tax purposes as an atypical silent partnership, DekaBank only accrues corporation tax to the extent that taxable income is not allocated to atypical silent partners. Taking into account the Bank's existing own shares in subscribed capital (acquired in the first half of 2011), the holdings of atypical silent partners in taxable income is 45.6%. This results in a combined tax rate of 24.68% for the companies in the DekaBank fiscal group. However, in return for the allocation of the tax base, atypical silent partners are entitled to allocate to DekaBank the corporation tax expense attributable to them (45.6% of 15.0% corporation tax plus solidarity surcharge thereon, in total 7.22%), meaning that DekaBank pays an amount equal to the tax expense to the atypical silent partners and from an economical point of view bears this part of the tax expense, as well. Thus, in order to achieve better comparability, the portion of the corporation tax expense attributable to the atypical silent partners is also reported as tax expense.

The applicable combined tax rate (trade tax plus corporation tax and solidarity surcharge) therefore totals 31.9%.

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

In a circular dated 17 July 2017, the Federal Ministry of Finance (BMF) presented rules for the tax treatment of share trades around the dividend record date, and noted, *inter alia*, that certain transaction types may fall under the scope of section 42 of the German Tax Code (*Abgabenordnung* – AO). The tax audit addressed corresponding share trades and amended notices are expected to be issued in the first half of 2020. However, DekaBank sees no convincing reason to believe that share trades it transacted around the dividend record date will fall under these rules and therefore considers it unlikely that a final claim will be made in this regard.

Since a degree of uncertainty remains as to how the tax authorities and fiscal courts will ultimately assess the share trades concerned, it is considered likely that legal action may have to be taken in order to uphold this legal position. The risk assessment did not fundamentally change in the reporting period compared with the previous year. The provision set up in this regard amounts to €15.7m as at 31 December 2019.

39 Management and intermediary services for third parties

The management and intermediary services provided for third parties relate to custody account management, in particular.

In the course of ordinary business activities within the Deka Group, transactions with Group companies are concluded at arm's length. The unconsolidated subsidiaries receive services from DekaBank free of charge as part of general business management services. This also applies to three subsidiaries included in the consolidated financial statements of the Deka Group that do not employ any staff of their own.

Information relating to *Pfandbrief* business

40 Calculation of cover for mortgage and public sector lending business

Mortgage *Pfandbriefe*

Outstanding Pfandbriefe and cover pool assets

	Nominal value		Net present value[1]	
€m	2019	2018	2019	2018
Outstanding mortgage Pfandbriefe	134.5	79.5	135.7	80.1
Cover pool mortgage Pfandbriefe	611.5	467.7	644.4	494.8
Overcollateralization	477.0	388.2	508.7	414.7
Overcollateralization as a % of outstanding	354.6	488.3	374.9	517.8

[1] Net present values according to vdp credit quality differentiation model

Outstanding Pfandbriefe and cover pool assets – risk adjusted net present values[1]

	Risk-adjusted net present value + 250 BP		Risk-adjusted net present value – 250 BP		Risk-adjusted net present value Currency stress	
€m	2019	2018	2019	2018	2019	2018
Outstanding mortgage Pfandbriefe	127.5	76.9	144.7	83.5	127.5	76.9
Cover pool mortgage Pfandbriefe	604.3	453.4	690.1	542.9	604.3	453.4
Overcollateralization	476.8	376.5	545.4	459.4	476.8	376.5
Overcollateralization as a % of outstanding	373.9	489.5	376.8	550.2	373.9	489.5

[1] Net present values according to with the static approach pursuant to the Pfandbrief Net Present Value Directive (PfandBarwertV)

Outstanding and cover pool Pfandbriefe are denominated exclusively in euros.

Maturity structure

Maturity ranges	Outstanding mortgage Pfandbriefe		Cover pool mortgage Pfandbriefe	
€m	2019	2018	2019	2018
up to 6 months	19.5	0.0	0.0	0.0
> 6 months to 12 months	10.0	30.0	74.6	0.0
> 12 months to 18 months	0.0	0.0	20.2	0.0
> 18 months to 2 years	10.0	29.5	0.0	67.1
> 2 years to 3 years	35.0	10.0	176.0	74.5
> 3 years to 4 years	60.0	10.0	67.2	110.9
> 4 years to 5 years	0.0	0.0	56.4	71.9
> 5 years to 10 years	0.0	0.0	217.0	143.3
> 10 years	0.0	0.0	0.0	0.0
Total	**134.5**	**79.5**	**611.5**	**467.7**

Breakdown of cover pool assets by size

€m	Total nominal value 2019	Total nominal value 2018
Ordinary cover:		
up to €0.3m[1]	0.0	0.0
> €0.3m to €1.0m[1]	0.0	0.8
> €1.0m to €10.0m[1]	5.9	41.6
> €10.0m[1]	570.6	415.3
	576.5	**457.7**
Other cover pool assets[1]	35.0	10.0
Total	**611.5**	**467.7**

[1] secured by mortgages

Additional information

	2019	2018
Share of fixed-interest assets outstanding (in %)	100.0	100.0
Share of fixed-interest assets in cover pool (in %)	75.3	82.2
Volume-weighted average age of receivables (in years)	3.4	3.3
Average weighted mortgage loan-to-value (in %)	58.5	58.0

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

Total amount of additional cover pool assets

€m	2019	2018
Cover pool assets according to Section 19 (1) no. 2 PfandBG		
Based in: Germany	35.0	10.0
thereof exposure in covered bonds according to Article 129 Regulaton (EU) no. 575/2013	0.0	0.0

Breakdown of cover pool assets by type of use

Total amounts	Federal Republic of Germany		France		Total	
€m	2019	2018	2019	2018	2019	2018
Commercial use	301.3	217.0	275.2	240.7	576.5	457.7
Other cover pool assets[1]	35.0	10.0	0.0	0.0	35.0	10.0
Total	**336.3**	**227.0**	**275.2**	**240.7**	**611.5**	**467.7**

[1] Including mandatory overcollateralization/safeguarding liquidity

Breakdown of cover pool assets by type of building

Total amounts	Federal Republic of Germany		France		Total	
€m	2019	2018	2019	2018	2019	2018
Office buildings	179.8	106.1	231.3	196.9	411.1	303.0
Retail buildings	0.0	0.0	43.8	43.8	43.8	43.8
Other commercial buildings	121.5	110.9	0.0	0.0	121.5	110.9
Other cover pool assets[1]	35.0	10.0	0.0	0.0	35.0	10.0
Total	**336.3**	**227.0**	**275.2**	**240.7**	**611.5**	**467.7**

[1] Including mandatory overcollateralization/safeguarding liquidity

As in the previous year, there were no claims in the cover pool assets which were in arrears by or non-performing for more than 90 days as at the reporting date.

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

As in the previous year, no foreclosure sales were carried out in financial year 2018.

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

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

Public sector *Pfandbriefe*

Outstanding Pfandbriefe and cover pool assets

	Nominal value		Net present value[1]	
€m	**2019**	**2018**	**2019**	**2018**
Outstanding public sector Pfandbriefe	2,606.4	2,382.2	2,851.8	2,661.7
Cover pool public sector Pfandbriefe	3,859.3	3,380.2	4,209.6	3,654.2
Overcollateralization	1,253.0	998.0	1,357.8	992.5
Overcollateralization as a % of outstanding	48.1	41.9	47.6	37.3

[1] Net present values according to vdp credit quality differentiation model

Outstanding Pfandbriefe and cover pool assets – risk adjusted net present values[1]

	Risk-adjusted net present value + 250 BP		Risk-adjusted net present value –250 BP		Risk-adjusted net present value Currency stress	
€m	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Outstanding public sector Pfandbriefe	2,531.4	2,417.2	3,247.0	2,962.2	2,501.7	2,932.3
Cover pool public sector Pfandbriefe	3,731.7	3,395.1	4,873.9	3,977.6	3,689.2	3,875.3
Overcollateralization	1,200.2	977.8	1,626.9	1,015.4	1,187.5	943.0
Overcollateralization as a % of outstanding	47.4	40.5	50.1	34.3	47.5	32.2

[1] Net present values according to the static approach pursuant to the Pfandbrief Net Present Value Directive (PfandBarwertV)

Maturity structure

Maturity ranges	Outstanding public sector Pfandbriefe		Cover pool public sector Pfandbriefe	
€m	**2019**	**2018**	**2019**	**2018**
up to 6 months	72.4	292.0	174.0	294.1
> 6 months to 12 months	231.0	163.0	40.9	0.2
> 12 months to 18 months	105.8	72.0	185.1	224.1
> 18 months to 2 years	0.5	232.6	138.7	64.5
> 2 years to 3 years	288.0	150.1	189.3	390.4
> 3 years to 4 years	395.0	290.0	274.5	212.0
> 4 years to 5 years	367.5	395.0	229.1	287.3
> 5 years to 10 years	943.3	540.4	1,480.3	1,562.9
> 10 years	202.8	247.1	1,147.3	344.8
Total	**2,606.4**	**2,382.2**	**3,859.3**	**3,380.2**

Breakdown of cover pool assets by size

€m	Total nominal value 2019	2018
Ordinary cover:		
up to €10.0m	107.9	58.3
> €10.0m to €100.0m	1,809.4	1,305.1
> €100.0m	1,942.0	1,976.9
	3,859.3	**3,340.2**
Other cover pool assets[1]	0.0	40.0
Total	**3,859.3**	**3,380.2**

Additional information

	2019	2018
Share of fixed-interest assets outstanding (in %)	93.2	92.7
Share of fixed-interest assets in cover pool (in %)	76.4	64.1
Net present values for each foreign currency in €m:		
USD	76.7	169.0

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

Total amount of additional cover pool assets

€m	2019	2018
Cover pool assets according to Section 20 (2) no. 2 PfandBG		
Based in: Germany	0.0	40.0
thereof exposure in covered bonds according to Article 129 Regulaton (EU) no. 575/2013	0.0	0.0

Distribution of cover pool assets

Total nominal value of cover pool assets by country/type

	Sovereign		Regional authorities		Local authorities		Other debtors		Total	
€m	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Federal Republic of Germany	193.2	240.5	338.7	372.7	1,377.0	613.9	973.9	983.0	2,882.8	2,210.1
Denmark	0.0	0.0	0.0	0.0	0.0	0.0	46.8	0.0	46.8	0.0
France	14.2	29.5	0.0	0.0	0.0	0.0	0.0	0.0	14.2	29.5
Canada	0.0	0.0	67.1	95.5	0.0	0.0	0.0	0.0	67.1	95.5
Latvia	0.0	0.0	0.0	0.0	88.7	100.5	0.0	0.0	88.7	100.5
Netherlands	157.7	165.4	0.0	0.0	0.0	0.0	0.0	0.0	157.7	165.4
Norway	62.5	75.0	0.0	0.0	0.0	0.0	0.0	0.0	62.5	75.0
Poland	50.0	50.0	0.0	0.0	0.0	0.0	0.0	0.0	50.0	50.0
United States of America	171.5	246.5	0.0	0.0	0.0	0.0	0.0	0.0	171.5	246.5
United Kingdom of Great Britain and Northern Ireland	318.0	367.8	0.0	0.0	0.0	0.0	0.0	0.0	318.0	367.8
Total	**967.1**	**1,174.6**	**405.8**	**468.2**	**1,465.8**	**714.4**	**1,020.7**	**983.0**	**3,859.3**	**3,340.2**

Of which: guarantees from export credit agencies

€m	2019	2018
Federal Republic of Germany	193.2	240.5
Denmark	46.8	0.0
France	14.2	29.5
Canada	0.0	0.0
Latvia	0.0	0.0
Netherlands	157.7	165.4
Norway	62.5	75.0
Poland	0.0	0.0
United States of America	171.5	246.5
United Kingdom of Great Britain and Northern Ireland	318.0	367.8
Total	**963.9**	**1,124.6**

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

Other information

41 Average number of staff

Number	2019			2018		
	Male	Female	Total	Male	Female	Total
Full-time employees	1,653	681	2,334	1,625	669	2,294
Part-time and temporary employees	115	471	586	110	433	543
Total	**1,768**	**1,152**	**2,920**	**1,735**	**1,102**	**2,837**

42 Remuneration of Board members

€	2019	2018
Remuneration of active Board members		
Board of Management	6,041,170	5,357,125
Administrative Board	780,000	711,333
Remuneration paid to former Board members and surviving dependants		
Board of Management	3,440,445	3,895,011
Provisions for pension commitments to these persons	47,648,801	45,105,269

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

In the financial year 2019, variable remuneration elements in the amount of €2.5m (previous year: €2.2m) were committed to active members of the Board of Management, which are dependent on future performance.

Half of the variable remuneration components to which an entitlement does not already arise in the year of the commitment and that are paid out at a later date (deferred variable remuneration components) are granted in the form of cash payments and half in the form of instruments. All deferred variable remuneration components are subject to a waiting period of up to five years, during which they can be reduced or forfeited entirely in accordance with the statutory provisions if targets are not met at individual, company or Group level.

The value of the instruments depends on the sustainable performance of the Deka Group. The instruments are subject to a one-year holding period following the end of the waiting period and are paid out after that period has elapsed. In the event of serious misconduct or breaches of duty, even those variable remuneration components that have already been paid out can still be claimed back for a period of up to two years after the end of the last waiting period for the financial year in question.

The total benefits include deferred variable remuneration components from active members of the Board of Management in the amount of €2.4m and due to previous members of the Board of Management in the amount of €0.4m. Active members of the Board of Management are to receive an amount of €0.5m for financial year 2018, €0.6m for financial year 2017, €0.4m for financial year 2016, €0.4m for financial year 2015, €0.3m for financial year 2014 and €0.2m for financial year 2013.

43 Loans to board members

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

44 Post balance sheet events

No material events of particular significance occurred between the reporting date and the date of the first audit of the financial statements (2 March 2020). The further development of the COVID-19/coronavirus crisis, particularly from the beginning of March 2020 onwards, is putting sustained pressure on the economy and the capital market alike. The impact on DekaBank's economic result and other key management indicators could result in the figures for 2020 being significantly lower than in 2019. As a result, the forecast report included in the management report has also been supplemented accordingly.

45 Recommendation regarding appropriation of net profit

The proposed appropriation of net profit for the 2019 financial year amounting to €55,218,050.08 is as follows:

- Distribution of a dividend amounting to €55,218,050.08, i.e. 28.8% on existing shares in the Bank's subscribed capital (€191,729,340.56) that are entitled to dividends as at 31 December 2019.

Seats on supervisory bodies

46 Notes to seats on supervisory bodies (as at 31.01.2020)

Michael Rüdiger (Chairman of the Board of Management until 31.12.2019)		
Chairman of the Supervisory Board (until 31.12.2019)	Deka Investment GmbH	Frankfurt/Main
Chairman of the Supervisory Board (until 31.12.2019)	Deka Vermögensmanagement GmbH	Frankfurt/Main
Member of the Supervisory Board	Evonik Industries AG	Essen
Member of the Supervisory Board (until 16.09.2019)	Deka Immobilien GmbH	Frankfurt/Main

Dr. Georg Stocker (Deputy Chairman of the Board of Management until 31.12.2019; Chairman of the Board of Management from 01.01.2020)		
Member of the Supervisory Board	S Broker AG & Co. KG	Wiesbaden
Member of the Supervisory Board	S Broker Management AG	Wiesbaden

Manuela Better (Member of the Board of Management)		
Deputy Chairman of the Supervisory Board	Deka Investment GmbH	Frankfurt/Main
Deputy Chairman of the Supervisory Board	Deka Vermögensmanagement GmbH	Frankfurt/Main
Deputy Chairman of the Supervisory Board (until 03.02.2020) Member of the Supervisory Board (from 04.02.2020 until 29.02.2020)	Deka Immobilien Investment GmbH	Frankfurt/Main
Deputy Chairman of the Supervisory Board (until 29.02.2020)	WestInvest Gesellschaft für Investmentfonds mbH	Düsseldorf
Deputy Chairman of the Supervisory Board (until 16.09.2019)	Deka Immobilien GmbH	Frankfurt/Main
Deputy Chairman of the Supervisory Board	S Broker AG & Co. KG	Wiesbaden
Member of the Supervisory Board	S Broker Management AG	Wiesbaden
Member of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Member of the Supervisory Board (until 12.06.2019)	Deutsche EuroShop AG	Hamburg

Dr. Matthias Danne (Member of the Board of Management)		
Member of the Supervisory Board (from 01.01.2020) Chairman of the Supervisory Board (from 15.01.2020)	Deka Investment GmbH	Frankfurt/Main
Member of the Supervisory Board (from 01.01.2020) Chairman of the Supervisory Board (from 15.01.2020)	Deka Vermögensmanagement GmbH	Frankfurt/Main
Chairman of the Supervisory Board	Deka Immobilien Investment GmbH	Frankfurt/Main
Chairman of the Supervisory Board	WestInvest Gesellschaft für Investmentfonds mbH	Düsseldorf
Chairman of the Supervisory Board (until 16.09.2019)	Deka Immobilien GmbH	Frankfurt/Main
Deputy Chairman of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Deputy Chairman of the Supervisory Board	S-PensionsManagement GmbH	Cologne
Deputy Chairman of the Supervisory Board	Sparkassen Pensionskasse AG	Cologne
Chairman of the Supervisory Board	Sparkassen Pensionsfonds AG	Cologne
Managing Director	Deka Treuhand Erwerbsgesellschaft mbH	Frankfurt/Main

Daniel Kapffer (Member of the Board of Management from 01.05.2019)		
Deputy Chairman of the Supervisory Board	bevestor GmbH	Frankfurt/Main
Member of the Supervisory Board	S Broker AG & Co. KG	Wiesbaden
Member of the Administrative Board (from 21.06.2019)	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg

Martin K. Müller (Member of the Board of Management)		
Chairman of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Member of the Supervisory Board	Sparkassen Rating und Risikosysteme GmbH	Berlin
Managing Director	Deka Treuhand Erwerbsgesellschaft mbH	Frankfurt/Main

47 Notes to the Board members of DekaBank Deutsche Girozentrale (as at 31.01.2020)

Board of Management

Michael Rüdiger
Chairman of the Board of Management
(until 31.12.2019)

Dr. Georg Stocker
Deputy Chairman of the Board of Management
(until 31.12.2019)
Chairman of the Board of Management
(from 1.1.2020)

Manuela Better
Member of the Board of Management

Dr. Matthias Danne
Member of the Board of Management

Daniel Kapffer
Member of the Board of Management
(from 01.05.2019)

Martin K. Müller
Member of the Board of Management

Administrative Board

Helmut Schleweis
Chairman
President of the German Savings Banks and Giro Association e.V.
President of the German Savings Banks and Giro Association ö.K.

Walter Strohmaier
Member
(01.01.2019 to 14.01.2019)
First Deputy Chairman
(from 15.01.2019)
Federal Chairman and Chairman of the Board of Management of Sparkasse Niederbayern Mitte

Thomas Mang
Member
(01.01.2019 to 14.01.2019)
Second Deputy Chairman
(from 15.01.2019)
President of the Savings Banks Association of Lower Saxony

Additional representatives elected by the Shareholders' Meeting

Michael Bräuer
Chairman of the Board of Management of Sparkasse Oberlausitz-Niederschlesien

Michael Breuer
President of the Rhineland Savings Banks and Giro Association

Ingo Buchholz
Chairman of the Board of Management of Kasseler Sparkasse

Prof. Dr. Liane Buchholz
President of the Savings Banks Association Westphalia-Lippe

Dr. Michael Ermrich
Executive President of East German Savings Banks Association

Dr. Johannes Evers
(until 31.12.2019)
Chairman of the Board of Management of Berliner Sparkasse and President of the Savings Banks Association Berlin

Ralf Fleischer
Chairman of the Board of Management of Stadtsparkasse München

Andreas Fohrmann
Chairman of the Board of Management of Sparkasse Südholstein

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

Dr. Christoph Krämer
Chairman of the Board of Management of Sparkasse Iserlohn

Beate Läsch-Weber
President of the Savings Banks Association Rhineland-Palatinate

Ludwig Momann
Chairman of the Board of Management of Sparkasse Emsland

Tanja Müller-Ziegler
(from 01.01.2020)
Member of the Board of Management of Berliner Sparkasse

Dr. Ulrich Netzer
President of the Savings Banks Association Bavaria

Frank Saar
Member of the Board of Management of Sparkasse Saarbrücken

Peter Schneider
President of the Savings Banks Association Baden-Württemberg

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

Burkhard Wittmacher
Chairman of the Board of Management of Kreissparkasse Esslingen-Nürtingen

Alexander Wüerst
Chairman of the Board of Management of Kreissparkasse Cologne

Employee representatives appointed by the Staff Committee

Michael Dörr
Chairman of the Staff Committee of DekaBank Deutsche Girozentrale

Erika Ringel
Member of the Staff Committee of DekaBank Deutsche Girozentrale

Representatives appointed by the Federal Organisation of Central Municipal Organisations

Helmut Dedy
Managing Director of the German Association of Cities

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

Roland Schäfer
Mayor of the City of Bergkamen and 1st Vice President of the German Association of Towns and Municipalities

Assurance of the Board of Management

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

Frankfurt/Main, 28 February 2020

Supplement to the notes to the financial statements and the management report to include information on significant events after the reporting date:

These events relate to the effects of the further development of the COVID-19/coronavirus crisis in the form of sustained pressure on the economy and the capital market, and a potential impact on DekaBank's key management indicators.

Frankfurt/Main, 24 March 2020

DekaBank
Deutsche Girozentrale

The Board of Management

Dr. Stocker Better

Dr. Danne Kapffer Müller

Note: This is a translation of the German original. Solely the original text in German language is authoritative.

Independent Auditor’s Report

To DekaBank Deutsche Girozentrale AöR, Berlin/Frankfurt am Main

Report on the Audit of the Annual Financial Statements and of the Management Report

Opinions

We have audited the annual financial statements of DekaBank Deutsche Girozentrale AöR, Berlin/Frankfurt am Main, which comprise the balance sheet as of December 31, 2019and the income statement for the financial year from January 1 to December 31, 2019, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of DekaBank Deutsche Girozentrale AöRfor the financial year from January 1 to December 31, 2019. In accordance with German legal requirements, we have not audited the content of those components of the management report specified in the “Other Information” section of our auditor’s report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as of December 31, 2019and of its financial performance for the financial year from January 1 to December 31, 2019 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company’s position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the management report specified in the “Other Information” section of the auditor's report.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Annual Financial Statements and of the Management Report” section of our auditor’s report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2019 These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Valuation of the trading portfolio (assets)
For the accounting policies applied, please refer to note 2 in the notes to the financial statements.

THE FINANCIAL STATEMENT RISK

As of December 31, 2019, DekaBank recognized a trading portfolio of EUR 41.1 billion. At 41.6 % of total assets this represents a significant item on the assets side for DekaBank and contains securities and derivatives, for which there is a quoted price on an active market and those for which a valuation method based on observable and/or unobservable market data was used.

The financial statement risk could lie in particular in the fact that no proper market prices, valuation methods and models as well as the valuation parameters incorporated as part of this are used when measuring the fair values.

OUR AUDIT APPROACH

Based on our risk assessment and evaluation of the risks of material misstatement, we developed an audit approach, which encompasses both controls testing as well as substantive audit procedures. We therefore performed the following audit procedures, among others:

For our assessment, we inspected documentation and conducted surveys, and also tested the functionality of key controls. In particular we evaluated the key processes and controls of DekaBank regarding

- the procurement and validation or the independent verification of quoted prices as well as observable and non-observable market data,
- the validation of the valuation method and models as well as
- the fair value measurement of securities and derivatives

in respect of their adequacy and effectiveness. In addition, we also audited the effectiveness of the general IT controls in the IT systems that are used.

We carried out, inter alia, the following substantive audit procedures for portfolios of securities and derivatives selected based on a risk-oriented approach as of December 31, 2019:

- Carrying out an independent price verification if a quoted price on an active market exists.
- Where there are no quoted prices on an active market, we performed a sample re-valuation using independent valuation methods, parameters and models.
- Determination and recognition of value adjustments for fair value measurement.

OUR OBSERVATIONS

The market prices, valuation methods and models used by DekaBank to value financial assets held for trading are appropriate. The parameters incorporated were properly derived.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Board of Management and the Administrative Board for the Annual Financial Statements and the Management Report

The Board of Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the Board of Management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the Board of Management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the Board of Management is responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the Board of Management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Administrative Board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the Board of Management and the reasonableness of estimates made by the Board of Management and related disclosures.
- Conclude on the appropriateness of the Board of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the Board of Management in the management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the Board of Management as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Art. 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on April 4, 2019. We were engaged by the Administrative Board on June 19, 2019. We have been the auditor of the DekaBank Deutsche Girozentrale AöR, Berlin/Frankfurt am Main, without interruption since the financial year 2013.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to DekaBank or subsidiaries of DekaBank services that are not disclosed in the annual financial statements or in the management report.

We performed an audit review of the interim (half-year) financial report. Furthermore, we also performed other assurance services, including custody account audits/audits pursuant to the German Securities Trading Act [WpHG], an assurance engagement pursuant to ISAE 3402, issuing of letters of comfort as well as other assurance services required by supervisory law and tax advisory services for Asset Management, which were approved by the Audit Committee.

Information on the Supplementary Audit

We issue this auditor's report on the amended financial statements and amended management report on the basis of our statutory audit completed on March 2, 2020 and our supplementary audit completed on March 25, 2020, which concerned the amendment to disclosures in the notes to the financial statements and the management report due to the updated forecast reporting taking into account new information on the effects of the spread of coronavirus. Please refer to the presentation of the amendment by the executive directors in section 44 entitled "Post balance sheet events" in the amended notes to the financial statements and in the section entitled "Forecast report" in the amended management report.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Thomas Beier.

Frankfurt am Main, 2 March 2020/limited to the amendment referred to in the Information on the Supplementary Audit: 25 March 2020

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Pukropski	Beier
Wirtschaftsprüfer [German Public Auditor]	Wirtschaftsprüfer [German Public Auditor]

Glossary

Additional Tier-1 bond (AT1 bond)
Non-cumulative, fixed-interest bearer bond issued by DekaBank as Additional Tier 1 capital with subsequent adjustment of its interest rate and an unlimited term. If the Common Equity Tier 1 capital ratio falls below a set minimum, the nominal and redemption values of the bearer bond may be reduced in specific circumstances. DekaBank's issued AT1 bonds are fully eligible as core capital and thus help improve the leverage ratio.

Advisory- / management mandate
External funds which are managed by a Deka Group investment management company (*Kapitalverwaltungsgesellschaft - KVG*). For advisory mandates, the Deka Group company acts only as an adviser, i.e. it is up to the external management company to verify compliance with investment regulations before placing orders. For management mandates, by contrast, investment decisions are taken, reviewed and carried out by a Deka Group investment management company.

Assets under Custody
All assets held in custody by the Deka Group as depositary.

Cost/income ratio (CIR)
In the Deka-Group, this indicator is calculated from the ratio of total expenses (excluding restructuring expenses) to total income (excluding risk provisions in the lending and securities business) in the financial year.

Economic perspective
The economic perspective is one of two approaches on which the internal capital and liquidity adequacy assessment processes (ICAAP and ILAAP) are based: In the context of the ICAAP, the economic perspective is implemented via the concept of risk-bearing capacity. It serves to secure the capital of the Deka Group in the long term, thus making a key contribution to ensuring the institution's survival. The aim is also to protect creditors against losses from an economic view. In the context of the integrated quantification, management and monitoring of liquidity risk (ILAAP), the key risk measure in the economic perspective is the "combined stress scenario" funding matrix defined by the Board of Management as being relevant for management purposes.

Economic Result
As a key management indicator, together with the risk in the economic and normative perspective, the economic result forms the basis for risk/return management in the Deka Group and is, in principle, determined in accordance with accounting and measurement policies of IFRS. As well as the total of profit or loss before tax, the economic result also includes changes in the revaluation reserve before tax as well as the interest rate and currency related valuation result from financial instruments recognised at amortised cost, which are not recognised in the income statement under IFRS but are relevant for assessing financial performance. The interest expense in respect of AT1 bonds (Additional Tier 1 capital), which is recognised directly in equity, is also included in the economic result. Furthermore, the economic result takes into account potential future charges that are considered possible in the future but that are not yet permitted to be recognised under IFRS due to the fact that accurate details are not yet available. The economic result is therefore a control variable on an accrual basis whose high level of transparency enables recipients of the external financial reporting to consider the company from the management perspective.

Fully loaded
Full application of CRR/CRD IV rules, i.e. disregarding the phase-in provisions.

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

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

Net sales
Key management indicator of sales success in asset management and certificate sales. This figure essentially consists of total direct sales of mutual and special funds, fund-based asset management, funds of cooperation partners, master funds and advisory/management mandates, ETFs and certificates. Net sales in investment fund business corresponds to gross sales less redemptions and maturities. Sales generated through proprietary investment activities are not taken into account. Redemptions and maturities are not taken into account for certificates because in the certificates business the impact on earnings primarily occurs at the time of issue.

Normative perspective
The normative perspective is one of two approaches on which the internal capital and liquidity adequacy assessment processes (ICAAP and ILAAP) are based: in the context of the ICAAP, the normative perspective includes all internal instruments, regulations, controls and processes aimed at ensuring that regulatory and supervisory capital requirements are met on an ongoing basis, i.e. also prospectively, over the next few years. This means that it directly pursues the objective of ensuring that the institution can continue as a going concern. In the context of the integrated quantification, management and monitoring of liquidity risk (ILAAP), the key risk measure in the normative perspective is the LCR in accordance with the CRR in conjunction with Commission Delegated Regulation (EU) 2015/61.

Number of (active) employees
The number of employees is the effective number of active full-time employees at the reporting date, with part-timers being counted in proportion to their working hours. Active employees means staff members who are actively involved in DekaBank's work processes. This includes the Board of Management, other managers, core staff members, contract staff and temporary staff. Vocational and other trainees, interns and employees on long-term leave are not included.

Payments to the alliance partners
Payments made to the alliance partners (savings banks and Landesbanks) by the Asset Management divisions are made up of the partners' portions of investment fund entry charges, sales commissions, sales performance fees, asset management fees and other payments from asset management. Reporting is focused mainly on payments made to the savings banks, as our shareholders. The payments to alliance partners have also included commissions on certificates.

Phase in
Application of CRR/CRD IV rules inclusive of the transitional provisions.

Return on equity (RoE)
Return on equity at the Deka Group is calculated as the return on balance sheet equity. It corresponds to the annualised economic result relative to the average balance sheet equity including atypical silent capital contributions, without additional Common Equity Tier 1 capital (AT1) and adjusted for intangible assets. Average balance sheet equity is calculated using the figures for the end of the previous year and the most recent quarterly financial statements (accumulated profit in the course of the year taken into account).

Risk appetite
Risk appetite refers to the overall aggregate risk of individual risk types that the Deka Group is prepared to enter into, within the limits of its risk capacity, in order to achieve its strategic objectives and business plan. In the economic perspective, the risk appetite for risks affecting profit and loss is defined in the risk-bearing capacity analysis as the allocated risk capital (allocation) for overall risk at Group level. The maximum permissible risk appetite is equal to risk capacity less a management buffer. With regard to liquidity risk, the Deka Group has defined its risk appetite in the economic perspective as the scenario that gives it an indefinite survival period in an extreme hypothetical stress scenario involving a simultaneous institution-specific and market-wide stress event. This hypothetical stress scenario is illustrated in the "combined stress scenario" funding matrix. Permanent solvency and an unlimited survival horizon are achieved by setting a limit of 0 on the liquidity balances of all maturity bands.

Risk-bearing capacity

The aim of the risk-bearing capacity analysis is to ensure the adequacy of capital resources from an economic view. Sufficient assets must be available to cover risk events, even those which materialise extremely rarely. This involves combining all risk types with a holding period of one year and a correspondingly high confidence level of 99.9%, which is consistent with DekaBank's target rating. The overall risk is then compared against the internal capital derived from the balance sheet, taking corresponding deductible items into account.

Total customer assets

The key management indicator total customer assets mainly includes the income-relevant volume of mutual and special fund products (including ETFs), direct investments in the funds of cooperation partners, the portion of fund-based asset management activities attributable to cooperation partner funds, third party funds and liquidity, master funds and advisory/management mandates and certificates.

Wertpapierhaus

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

Gender clause

In this report, words in the masculine include words in the feminine; in parts of the report, the masculine form has solely been used to make the document easier to read.

Disclaimer

The management report as well as the Annual financial statements in other respects contain forward-looking statements as well as expectations and forecasts. These are based on the information available to us at this time, which we have deemed to be reliable after careful consideration. We do not assume an obligation to update based on new information and future events after the publication of this information. We have derived our estimations and conclusions from these forward-looking statements, expectations and forecasts. We expressly point out that all of our future-oriented statements are associated with known or unknown risks or imponderables and are based on conclusions relating to future events, which depend on risks, uncertainties and other factors that are outside of our area of influence. Such developments can result from, among other things, a change in the general economic situation, the competitive situation, the development of the capital markets, changes in the economic and regulatory environment as well as from other risks. The events actually occurring in the future may thus turn out to be considerably different from our forward-looking statements, expectations, forecasts and conclusions. We can therefore assume no liability for their correctness and completeness or for the actual occurrence of the information provided. The English translation of the DekaBank Annual financial statements is provided for convenience only. The German original is definitive.

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This report was finalised in April 2020

Produced in-house with firesys

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