Deka-Group
Annual Report
2016

Finanzgruppe

Deka Group at a glance

Business development indicators		31 Dec 2016	31 Dec 2015	Change %
Total assets	€m	85,955	107,981	–20.4
Total customer assets	€m	256,805	240,045	7.0
thereof retail customers	€m	128,650	123,058	4.5
thereof institutional customers	€m	128,155	116,987	9.5
Number of securities accounts	thousand	4,289	4,054	5.8

		2016	2015	
Net sales	€m	16,914	19,505	–13.3
thereof retail customers	€m	7,710	10,196	–24.4
thereof institutional customers	€m	9,204	9,308	–1.1

Performance indicators				
Total income	€m	1,403.7	1,524.1	–7.9
thereof net interest income	€m	139.2	182.7	–23.8
thereof net commission income	€m	1,107.4	1,111.0	–0.3
Total expenses	€m	988.6	913.5	8.2
thereof administrative expenses (including depreciation)	€m	970.1	917.4	5.7
Economic result	€m	415.1	610.6	–32.0
Net income before tax	€m	489.5	601.0	–18.6

Key ratios				
Return on equity	%	9.4	14.8	–5.4 %-Points
Cost/income ratio	%	60.7	57.7	3.0 %-Points

Key regulatory figures (without transitional provisions – fully loaded)		31 Dec 2016	31 Dec 2015	
Own funds	€m	5,289	5,194	1.8
Total capital ratio	%	22.2	16.7	5.5 %-Points
Common Equity Tier 1 capital ratio	%	16.7	12.4	4.3 %-Points

Risk ratios				
Total risk-bearing capacity	€m	5,785	5,868	–1.4
Group risk (value-at-risk)	€m	2,039	2,440	–16.4
Utilisation of risk-bearing capacity	%	35.2	41.6	–6.4 %-Points

Non-guaranteed rating long-term (short-term)[1]				
Moody's		Aa3 (P-1)	Aa3 (P-1)	
Standard & Poor's		A+ (A-1)	A (A-1)	

Sustainability rating				
MSCI		AA	AA	
oekom research		C+	C	

Key employee figures				
Number of employees		4,556	4,277	6.5
Number full-time equivalents		3,990	3,722	7.2

[1] Moody's: Long-Term Senior Unsecured Debt and Issuer Rating; Standard & Poor's: Issuer Rating (as of 4 April 2017)

Due to roundings, number and percentages presented throughout this report may not add up precisely to the totals provided.

With its comprehensive range of investment and asset management solutions, the Deka Group's strategy is precisely tailored to the requirements of the savings banks, their customers as well as third-party institutional investors. This Wertpapierhaus strategy is based on an integrated business model of products and services, both in banking business and asset management.

Deka was overall winner at the "Capital-Fonds-Kompass" awards 2017 and received a five-star rating for the fifth consecutive year, once again confirming our high standards of product quality. Our financial and sustainability ratings, too, send an important signal to our owners and customers: the Wertpapierhaus for the savings banks is in a strong position.

Content

Michael Rüdiger
CEO

Dr. Georg Stocker
Deputy CEO

Manuela Better
Member of the
Board of Management

Dr. Matthias Danne
Member of the
Board of Management

Martin K. Müller
Member of the
Board of Management

Dear Shareholders and Investors,

2016 was a year of challenges – after a difficult start for the equity markets there was further turbulence, primarily as a result of political events. What matters in this kind of environment is stability and reliability. We aim to achieve both of these as we implement our sustainable business model, thereby promoting confidence among our shareholders and customers.

Our *Wertpapierhaus* strategy has proven its worth over the past year, and our net sales of €16.9bn provide clear confirmation of this fact. The Deka Group ended the year with an economic result of €415.1 million. As expected, this fell below the strong result achieved in the previous year. This was essentially due to the extraordinary market conditions, which led to significantly higher allocations to loan loss provisions for ship financing.

Net commission income, an important sustainable component of earnings for Deka, remained stable. The strong net sales and robust capital growth enabled us to increase total customer assets to €257bn. We firmly believe that the growth trend in securities business will continue.

Along with equity and property funds, investors focused mainly on multi-asset products. These enable our customers to participate in the opportunities for growth and returns offered by different asset classes, industries and global regions. The importance of our certificates business continued to grow strongly, with a substantial increase in our market share. This is also reflected in the performance figures from our trading and structuring unit within the Capital Markets business division.

The success of structured products and the expansion of asset servicing for institutional clients demonstrate how asset management, banking business and sales all work together to provide the best solutions for our customers. It is integrated concepts such as these that will shape our response to the major challenges of the future – the age structures in society, the low interest rate environment and digitisation, coupled with persistently onerous regulatory requirements.

Concepts and solutions like this are made possible by our integrated business model, which is made up of asset management and banking business. The Deka Group's business model will continue to adopt this integrated approach in the future. In view of regulatory developments, we made the separation of banking business divisions and asset management within the Deka Group's organisational structure even clearer at the start of 2017, allocating concomitant responsibilities to new departments. The new Asset Management Services business division combines digital multi-channel management (including depositary business) and custodial services. This, and the connection with S Broker and our digital development platform bevestor, set the direction for the savings banks' – and Deka's – future positioning in online securities business.

The objective of promoting and expanding a broad-based securities culture lies at the heart of our *Wertpapierhaus* strategy. In the light of the ongoing low interest environment, Deka's business policy priorities are in line with the socio-political challenge Germany faces to ensure continuing access to wealth creation for broad sections of the population in future. Promoting regular saving through securities investments is just as much a part of this as providing support for the savings banks with private banking and expanding advice and services for institutional investors within and outside the *Sparkassen-Finanzgruppe*. The fact that we were overall winner at the "Capital-Fonds-Kompass" awards 2017 and received a five-star rating for the fifth consecutive year provides external confirmation of our strive for high product quality.

Investment in the future is balanced by a determination to limit costs and risk. The savings banks can continue to expect significant added value from Deka in future, and investors can rely on our strong capital and liquidity base and modest utilisation of risk capacity. In 2017, we aim to achieve an economic result roughly in line with the previous year. But we are also looking ahead to celebrating Deka's 100th anniversary in 2018. The *Wertpapierhaus* is built on firm foundations and is well-placed for future expansion and growth.

Sincerely,

Michael Rüdiger

Dr. Georg Stocker

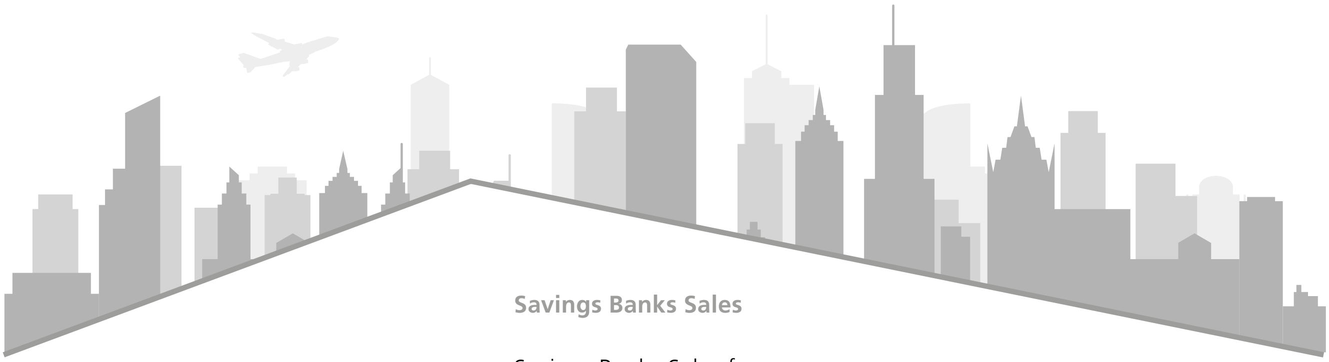
Manuela Better

Dr. Matthias Danne

Martin K. Müller

Deka Group
The Wertpapierhaus for the savings banks

The Deka Group relies on an integrated business model. Although separate operations from an organisational point of view, asset management and banking business work hand in hand to open up opportunities for returns for private and institutional customers in the low interest environment. In future, the four business divisions will be complemented by a new “Asset Management Services” division, which essentially combines digital multi-channel management and custodial services. The business divisions are supported by sales units that use analogue and digital channels to offer advice and customised solutions for specific customer segments.



Savings Banks Sales

Savings Banks Sales focuses on nationwide, comprehensive support for savings banks, helping them to deal with and advise customers directly. This also includes support for sales and marketing activities, as well as providing training on securities for the savings banks' sales advisers.

Asset Management

Securities
The Securities business division is responsible for fundamental fund management, fund-based asset management, multi-asset products, quantitative fund management and ETFs. The range of products includes all major asset classes, from equity, bond, money market, mixed and capital-protected funds, and any combination of these, to advisory/management mandates and solution-oriented asset servicing offerings, with a focus on master KVGs for institutional customers.

Real Estate
The Real Estate business division's range of services is made up of property-based investment products for private and institutional investors. The product portfolio includes open-ended mutual property funds, special funds with both open and closed investor structures, individual property funds and credit funds.

Private customers

Institutional customers

Banking business

Capital Markets
The Capital Markets business division's role in customer-related capital markets business is to bridge the gap between markets and customers, acting as a product developer and supplier, an infrastructure provider for capital markets transactions and a collateral and securities platform for savings banks and third-party institutional customers.

Financing
As well as providing refinancing for the savings banks, the Financing business division offers tailored specialised financing solutions such as infrastructure and transport finance and is also responsible for property financing.

Institutional Sales

In institutional business, the focus is on solutions for third-party institutional customers such as foundations and pension funds, as well as our role as a management partner for the savings banks' Depot A business. The fact that customers can take advantage of our capital market and asset management expertise "all under one roof" is a true unique selling point for Deka here.

Corporate Centres

The corporate centres provide support both to our sales teams and our business divisions. Alongside Treasury, the Corporate Centres comprise Corporate Office & Communications, Internal Audit, Legal, Compliance, Corporate Development, Human Resources & Organisation, Risk Control Capital Market Funds, Custody Services, Risk Control, Finance, IT and Credit Risk Office, and Transaction & Custodian Services.

Highlights 2016

Capital-Fonds-Kompass 2017: Deka tops the charts

As the "Best investment fund company", Deka was awarded the top spot on the winner's podium at the "Capital-Fonds-Kompass" awards 2017. The decisive factors for the jury were "continual improvements in results for investors" and fund quality that "none of the major German competitors" can beat.

More than 300,000 additional **savings plans**

Liven up your future financial provision with securities savings – you can rely on Deka. In 2016, the number of savings plans increased by around 300,000, resulting in a total portfolio of 3.5m at the end of the reporting year.

€2.4 bn

Deka equity funds **flourish,** despite market trends

Many investors were unsettled by the stock markets' weak start to 2016. Even so, the savings banks and their *Wertpapierhaus* were able to help more customers invest their money better.

Working together to promote a **securities culture** in Germany

About 300 members of savings banks' boards of management attended the third shareholder conference in October 2016, where they enjoyed a comprehensive and varied programme of events examining the idea of a securities culture. Presentations and discussions allowed attendees to examine the issue from a range of perspectives.

Master KVG offering "excellent"

Deka Investment GmbH's Master KVG offering was awarded an overall score of 1 ("excellent") by rating agency Telos. Together with numerous key additional services, it forms the core of the Deka Group's Asset Servicing offering.

Certificates: Best issuer, robust growth

When it comes to certificates, Deka is still in the fast lane. It ended 2016 as market leader in reverse convertibles and number two in investment products. At the FERI EuroRating Awards, Deka was once again named as the best issuer in the category "Certificate issuers: primary market".

€32.5 bn

Property funds – invest in prime locations

Deka's property funds were also popular with savings bank customers: net sales in the Real Estate business division grew from €1.8bn to €2.5bn in 2016. Total customer assets increased from €29.5bn to €32.5bn, making the Deka Group one of the biggest property investors in the world.

Focus on sustainability confirmed and reinforced

Deka's appeal for investors who place value on sustainability principles increased further in 2016. In September 2016, the Deka Group improved its overall score in oekom research's corporate rating by one notch to "C+". This is one of the best grades currently awarded by oekom research in the banking sector, and corresponds to "Prime" status.

A new hub for **online investors**

The initiatives introduced by Deka and the savings banks in digital multi-channel management are bearing fruit. A sophisticated solution for online securities business went live in December. The complete acquisition of S Broker strengthens the Deka Group's online expertise, and an independent development platform for the digital solutions of the future is now ready to go in the form of bevestor.

Group management report 2016. With an economic result of €415.1m, the Deka Group finished the 2016 financial year below the strong result seen in the previous year, in line with expectations. In particular, market-related factors led to higher loan loss provisions for existing ship financing loans granted prior to 2010. In contrast, net commission income – an important and sustainable component of earnings – was able to match the previous year's figure, thanks to high net sales and an increase in total customer assets. With its strong capital and liquidity base, Deka is wellprepared for future requirements.

Group management report

At a glance

As the *Wertpapierhaus* for the savings banks, DekaBank was once again a strong partner within the *Sparkassen-Finanzgruppe* during 2016. In a challenging environment characterised by high levels of market volatility, low interest rates, growing political risks and the continuing high cost of regulatory measures, the integrated business model – a combination of asset management and banking services – proved its worth. Deka is in a stable position and in 2016 again provided the savings banks and their customers with high-quality products and solutions appropriate to the market environment, while at the same time investing further in the expansion of the *Wertpapierhaus*.

During the reporting period, the Deka Group achieved an economic result of €415.1m. As expected, this was below the previous year's very strong result. This was primarily due to specific provisions in relation to ship financing granted before 2010.

Total customer assets increased by an encouraging 7.0%, to €256.8bn. As well as continuing positive net sales performance, this also reflects the solid performance of the Bank's fund products.

The investments made in Deka's business model and the quality of its products are bearing fruit and once again led to numerous favourable appraisals of the Bank. Net sales performance also remains at a high level, thanks in particular to the successful expansion of institutional business.

Initiatives in digital multi-channel management have also advanced as planned. As part of this process, Deka acquired 100% of S Broker AG & Co. KG (S Broker) during the 2016 financial year.

With its strong capital and liquidity base, Deka is well-prepared for future requirements. This is evidenced by a Common Equity Tier 1 capital ratio (fully loaded) of 16.7% as at the year-end, a liquidity coverage ratio (LCR) of 124.4% – substantially above the minimum requirements – and a modest 35.2% utilisation of risk capacity (total risk-bearing capacity).

Information about the Deka Group

Deka Group profile and strategy

DekaBank is the *Wertpapierhaus* for the savings banks. Together with its subsidiaries, it makes up the Deka Group. Through its activities in asset management and banking business, it acts as a service provider for the investment, administration and management of assets and supports the savings banks and their customers throughout the entire securities-related investment and advisory process. In addition, it offers comprehensive advice and solutions to both the savings banks and institutional customers outside the *Sparkassen-Finanzgruppe* on their investment, liquidity, funding and risk management requirements.

Legal structure and corporate governance

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

The Deka Group strictly adheres to the principles of good and responsible corporate management. The corporate governance concept for the management and supervision of the Group ensures that boards' and committees' responsibilities are clearly defined and enables efficient decision-making processes. As a member of the *Sparkassen-Finanzgruppe* (Savings Banks Association), DekaBank is committed to the principles of subsidiarity and a focus on the greater good.

These principles form the basis of its code of ethics, which provides binding guidelines for the actions of corporate bodies and employees. It represents the basic structure for a corporate culture within the Deka Group that complies with the law and is open, transparent and value-oriented.

DekaBank is jointly managed by the Board of Management, which comprised five members as at the 2016 reporting date, with their respective Board responsibilities remaining unchanged. During the second half of 2016, the Administrative Board extended the appointments of CEO Michael Rüdiger and Deputy CEO Dr. Georg Stocker for a further five years, until 2022.

In 2016, the business activities of the Deka Group were split between the four business divisions Securities, Real Estate, Capital Markets and Financing. Strategically, the Group relies on an integrated business model of products and services, both in traditional banking business and in asset management. In order to successfully implement this strategy in a forward-looking manner, and to avoid potential conflicts of interest, in December 2016, the Deka Group adopted a plan for a new split between its business activities, which has been in effect since 1 January 2017.

A key element of the reorganisation is the even clearer separation between leadership of the banking business and asset management. The new allocation of business activities involved further development to the way the business divisions are structured.

From 2017 onwards, the Deka Group's activities are organised into five business divisions:

The Asset Management Securities business division will continue to focus predominantly on securities fund business. Depositary and custodial services (including S Broker) are assigned to a new business division, Asset Management Services.

Going forward, the Asset Management Real Estate business division will handle only property fund business. Property financing has been transferred to the Financing business division.

The Capital Markets business division remains unchanged.

From 2017, the Financing business division comprises Specialised Financing (savings banks, infrastructure and transport asset finance, export finance backed by export credit agencies (ECAs)) and Property Financing.

The new business division Asset Management Services essentially combines digital multi-channel management (including depositary business) and custodial services.

At departmental level, the following lines of responsibility will be in place:

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

The members of the Board of Management are supported by in-house management committees in an advisory capacity. In addition, DekaBank actively incorporates representatives of the *Sparkassen-Finanzgruppe* into its decision-making process via three specialist advisory boards, which advise the Board of Management, and six regional sales committees. The Board of Management 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 shareholder and employee representatives as well as representatives from the *Bundesvereinigung der kommunalen Spitzenverbände* (German Federal Association of Central Municipal Organisations), who act in an advisory capacity. The Administrative Board's work is performed in part by the full Board and in part by various committees. To this end, the Administrative Board has formed the General and Nomination Committee, the Audit and Risk Committee, the Remuneration Supervision Committee and the Credit Committee. The German Federal Minister of Finance is responsible for general governmental supervision.

Business model

The business model of the Deka Group is characterised by close collaboration between asset management and banking business. As asset management products, the Deka Group provides securities funds, property funds, credit funds and certificates, together with the associated asset management services for private and institutional investors. As part of this, it supports the investment funds in asset management business and supports institutional customers in their asset management, as well as capital, liquidity and risk management. In this regard, the Deka Group acts as finance provider, issuer, structurer, trustee, asset servicing provider and custodian.

The Deka Group's offering focuses firstly on the requirements of the savings banks and their customers. In this regard, individual customers and high net worth private clients as well as – closely related to these – commercial and corporate customers of the savings banks constitute a particularly important target group. Secondly, the Deka Group supports institutional customers which, besides the savings banks, include insurance companies, pension funds, foundations, companies from various sectors and the domestic public sector.

In addition to asset management activities in the narrower sense, the Deka Group also provides the transaction of securities business, securities accounts, asset servicing and custodial services. The range of advisory and other services for asset management purposes, which can be used by savings banks and other institutional customers, includes the bank's function as a liquidity and collateral platform, its securities lending offering and support for the procurement and settlement of securities and financial derivatives and in regulatory matters. The Deka Group also offers related supplementary services, such as the provision of market analyses, infrastructure services and market conformity checks.

In business involving securities funds and real estate funds, the Deka Group primarily earns commission income from management and transaction fees, some of which is passed on to the savings banks in their capacity as sales partners in the form of payments to the alliance partners, taking into account regulatory requirements. Additional commission income is generated from banking transactions, including capital market activities. Interest income is mainly derived from real estate, transport and infrastructure financing, as well as from the refinancing of the savings banks, the Capital Markets business division and treasury activities.

Deka Group strategy

Strategic objectives

As the *Wertpapierhaus*, the Deka Group's strategy is geared to supporting the savings banks in a competitive environment on a sustained basis and consolidating its important role in helping German households to build up their assets. To this end, the Deka Group makes use of synergies between asset management and banking business and continues to develop its comprehensive range of investment and asset management solutions on an ongoing basis, modelling these on the requirements of the savings banks and their customers.

In retail business, the Deka Group aims to encourage more people to invest in securities and hence to promote a securities culture in Germany overall, working in close cooperation with the savings banks and the DSGV. The intention is to open up opportunities for customers, by means of simple and easy-to-understand products, to generate appropriate returns on their investments and to safeguard their futures, even in times of low interest rates. In doing so, the different needs of customers, depending on their circumstances with regard to income and assets, are fully taken into account through customised product offerings and ranges of solutions.

Business with institutional customers is built on two pillars, with particular emphasis placed on business with the savings banks. In co-ordination with the savings banks at the local level, Deka also aims to boost business with third-party institutional customers substantially. There is also a focus on leveraging additional sales and earnings potential and on offering new products and services. In this context, the aim is to further strengthen the role the Deka Group plays as a central securities and collateral platform and to meet the demanding regulatory requirements using existing processes. With regard to the savings banks' own investments, the Deka Group intends to secure its leading position by expanding its advisory and solution offering. The intention is also to further expand its market position with institutional customers outside the *Sparkassen-Finanzgruppe*.

The Deka Group wants to continue to generate significant added value for its shareholders in future. Managing its high-performance asset management and bank platform will ensure an appropriate risk/return ratio for the long term. At the same time, value-oriented growth coupled with the efficient use of equity is also aimed at securing an ambitious target rating, which is of vital importance to the Deka Group's business model.

The objectives of the sales department, the business divisions and the corporate centres are derived from the Deka Group's strategic targets.

Strategic measures

As the *Wertpapierhaus*, Deka supports the savings banks' securities-related retail business, their asset/liability management and asset management for other institutional customers through comprehensive, advice-oriented sales approaches and solution-based investment concepts. To do so, it draws on the strengths of its integrated business model in a targeted manner, with products and services in both traditional banking business and in asset management.

Support for savings banks in retail business

Deka offers comprehensive services to support the investment and advisory process at the savings banks. This is not limited to procedural support but rather includes offering the savings banks systematic sales support on site. For this purpose, extensive investment has been made in Deka's external sales force.

Deka's strategic focus is on the growth measures for the savings banks' securities business that were adopted as part of the DSGV project "Sales strategy of the future". Key components include the new customer segmentation established at each of the savings banks, the networked multi-channel approach, needs-based advisory processes, product and service offerings that are tailored to their target groups, and a personalised, proactive approach to customers. In addition, Deka offers a differentiated range of services, from simple and cost-efficient solutions for regular wealth creation by retail customers, to securities investments with small investment amounts and the provision of tailored support services for the individual customer segment.

For the savings banks' private banking customer segment, Deka provides differentiated investment strategies and solutions for structuring assets. In addition, it also provides on-site support to the private banking units of the savings banks. Savings banks can thus draw upon solutions and advisory support from Deka for their wealthy private clients by means of a special cooperation model, even if they do not have their own private banking units. Due to numerous overlaps between the private and business assets of high net worth individuals, Deka has combined both of these in the Private Banking unit, and supports the savings banks in private and business financial management for high net worth individuals from a single source.

Support for savings banks in online securities business

Deka's initiatives in digital multi-channel management are closely linked to the DSGV sales strategy of the future. The objective is to provide savings bank customers access to Deka's attractive securities offering via online channels as well, and in this way to dovetail the proven investment and advisory process at branches with digital sales, which are integrated into high-quality information on topics related to stock markets and securities. This expansion of the savings banks' multi-channel offering opens up additional opportunities for savings bank advisers to interact with their customers.

To this end, Deka has developed a solution for online securities business. The intention is for this white label offering to be seamlessly integrated into the websites of the respective savings banks. Users find suitable investments easily using a self-analysis and advisory tool, and can open a securities account online and sign up for products directly – or can use the branch's advisory services for this.

Another important step in strengthening online securities expertise within the Deka Group is the connection with S Broker AG & Co. KG ("S Broker"), the online broker of the *Sparkassen Finanzgruppe*. With effect from 30 June 2016, Deka acquired the outstanding 69.4% limited partner shares in S Broker AG & Co. KG and can now apply this company's digital securities expertise to its own online securities business. S Broker will also continue to market its range of products and services under its own name in the future. Measures in relation to sales cooperation and technical integration are currently being implemented. S Broker is also important to the modular implementation of the portfolio strategy, since it already serves as the portfolio manager for numerous clients of the savings banks who either make their own investment decisions or are advisory clients.

Moreover, with the establishment in June 2016 of bevestor GmbH, in which DekaBank holds all shares, there is now an independent development platform available for digital offerings of the future. The objective of this development platform is to enable digital offerings to be developed more rapidly and with greater flexibility. bevestor is currently testing the platform and will make it available to the savings banks in multi-channel business once it has reached the appropriate level of maturity. The investment portfolios with dynamic stop-loss limits that will in future be available on the online platform are already based on an idea that was developed by bevestor GmbH. Employees of Deka's former Digitalisation Management group have been employed by bevestor GmbH since 1 August 2016.

Enhancement of the investment process

During the reporting year, Deka launched an initiative to further enhance its investment process. The overarching objective is to establish an investment process that is systematic and interlinked as a whole, using all available skills and resources. The findings will contribute to setting the framework for the respective strategy types, whilst safeguarding the degree of freedom afforded to portfolio managers beyond the fundamental direction set. The aim is to steer the process in a manner that is risk-focused and optimises earnings, in order to be able to identify any market potential – currently limited in the low interest-rate environment – as early as possible. In doing so, the interests of customers remain paramount when managing funds and mandates on a discretionary basis. Comprehensive investment advice can also be incorporated. The interplay between strategic direction and tactical management should ensure both an attractive risk-return profile and a rapid response to market developments.

During the reporting year the management of asset management concepts and the administration of asset management funds were relocated to an independent division of Deka Investment GmbH and combined with the main multi-asset funds unit.

During the reporting year, optimisation of equity and bond products as well as the growth of multi asset funds were once again at the heart of product strategy. To this end, the focus was on specific themes. For example, newly established bond funds with a focus on high-yield bonds enable investors to participate in an attractive bond segment. With its new US dollar-denominated open-ended mutual property fund with an investment focus on North America, Deka offers savings bank customers access to the attractive property markets of this region. The launch of the Deka-Industrie 4.0 fund allows investors to benefit from the growth opportunities of the fourth industrial revolution. Deka's flagship product *Deka-Vermögenskonzept* (Deka Wealth Concept) was similarly enhanced over the past year. Taken together with *Deka-BasisAnlage* (Deka Basic Investment), this means that once again optimised products are available in the retail segment for regular saving through securities investments. For certificates issued by DekaBank's Capital Markets business division, as in the previous year, the emphasis was on equity-based structures, in particular 'express' certificate structures and reverse convertible bonds.

Awards

In the 2016 "Fonds Kompass" awards run by *Capital* business magazine, FERI EuroRating Services and Tetralog Systems, Deka was ranked top among the major German providers in the category of fund quality. In addition, it received the best possible rating for quality and management continuity, as well as for its fund product range and customer service. Overall, Deka achieved its best result yet, scoring 86.1 out of a total 100 possible points, and for the fourth time in a row received the highest possible rating of five stars.

At the FERI EuroRating Awards, Deka was once again named as the best issuer in the category "Certificate issuers: primary market". At the 2016 ZertifikateAwards ("Certificate Awards") awarded by the specialist publication *Der Zertifikateberater* ("The Certificate Advisor"), Deka also took first place in the categories "Primary market" and "Certificate House of the Year".

The Deka Group's securities funds also performed strongly in benchmarking tests. At the FERI EuroRating Awards, the fund *Deka-Nachhaltigkeit Renten* (CF) A was chosen as the best fund in the "Bonds EUR" category. Alongside quantitative considerations, qualitative aspects of the fund management were also crucial to this decision.

Deka Immobilien GmbH secured victory at the 2017 Scope European Fund Awards in the category "Best asset manager – global real estate funds for retail investors", with the jury drawing particular attention to its special international management expertise, along with the expansion of the global product range. For the seventh time in succession, the open-ended property fund *Deka-ImmobilienGlobal* won recognition as the best globally-investing fund for private investors.

Growth strategy in institutional business

Offerings for institutional customers are combined under the *Deka Institutionell* brand. Following significant expansion of products and advisory services in the previous year to take into account changing customer and regulatory requirements, in 2016 an expansion of the business began. Building on the very high penetration of the *Sparkassen-Finanzgruppe*, pension schemes, insurance companies, non-profit organisations, family offices and foundations were specifically targeted both within and outside the public sector.

To this end, Deka Institutionell is working closely with the savings banks, which could put forward supplementary offerings from Deka that are not offered by the savings banks themselves to their existing and new institutional customers. This is accompanied by rigorous brand positioning and active marketing. A broader market presence allows economies of scale to be leveraged and limits regulatory costs for individual customers.

Capital market and credit solutions as well as quantitative securities concepts or advisory services such as fiduciary management are available to customers. In addition, Deka developed further investment products during the reporting year, combining selected alternative investments to enhance yield. Different fund solutions for alternative asset classes, which are regulated under the Alternative Investment Fund Managers Directive (AIFM Directive), are consolidated on one platform under Deka Alternative Investments (DALI). Plans include expansion of the institutional offering to include property funds of funds, property special funds and advisory services building on the Deka Property Compass. Also reflected in the product range is growing customer demand for sustainable investments.

Products and services for the proprietary business of savings banks and institutional investors are pooled in the growing business division Asset Servicing. At the core of its offering is the amalgamation of different asset classes in master funds, combined with a reduction of regulatory complexity for individual customers. During the reporting year, Deka Investment GmbH's Master KVG offering was awarded an overall score of 1 ("excellent") by the rating agency Telos.

Measures in banking business divisions

The business divisions in the banking business remain effectively interlinked with the asset management business in spite of the greater organisational separation that has been introduced. Through targeted measures, the business model can be implemented in banking business without major strategic adaptations, even taking into consideration future regulatory requirements. Furthermore, working in collaboration with Institutional Sales, even closer integration with the savings banks should be brought about in terms of both infrastructure services and advisory services, for example with the use of the Treasury Compass.

Ongoing development of the sustainability strategy

The Deka Group's sustainable corporate governance is based on the strategy of the savings banks, which was further developed in the "Düsseldorfer Erklärung" (Düsseldorf Declaration) during the 25th German Savings Banks Day in April 2016. The Deka Group incorporates the framework defined by its owners into its philosophy and sets itself corresponding objectives, which it strives to fulfil as the *Wertpapierhaus* of the savings banks. The Deka Group's commitment to a sustainable business policy is an integral part of this philosophy.

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

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

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

This provides the foundations for the ongoing development of the sustainability strategy, which has been in force since 2009 and was integrated into the business strategy at the end of October 2014. The same applies for the code of ethics, which sets out binding guidelines for employee conduct. The code of ethics is also the basis for a corporate culture within the Deka Group that complies with the law, is open and transparent and focuses on added value. This is reflected in the code's cornerstones of professionalism, responsibility, trust, collegiality, sustainability, diversity, communication and consistency. This includes, for instance, preventive measures aimed at avoiding economic crime.

The Deka Group manages sustainability in a holistic manner, as a responsibility that cuts across all areas of the Bank. Alongside the recognition of national and international standards (UN Global Compact, Equator Principles and the German Sustainability Code (*Deutscher Nachhaltigkeitskodex*)), the continued improvement of sustainable product and services portfolios is growing ever more important. Against the backdrop of the German government's Climate Action Plan 2050, the Deka Group has thus set itself the goal of producing overall evidence on CO_2 emissions associated with its business activities. This includes in particular compiling the indirect emissions from total customer assets and from banking business recognised on the balance sheet, in addition to the readings already available on proprietary banking operations. A step-by-step plan will be created on the basis of the evidence obtained. The measures set out in the plan are to be implemented from 2018.

Four areas of activity ensure an integrated approach to sustainability. Accompanying these activities with communication measures and presenting them in a transparent way (including in the annual sustainability report and in the sustainability section on the website) are key elements in responsible corporate governance.

Sustainable products: The Deka Group observes internationally recognised sustainability standards in its product development, thus responding to the growing social and environmental requirements of institutional and private customers. Sustainability aspects are taken into consideration for securities and property-based investment products, as well as in the area of financing and for proprietary investments.

Sustainable HR management: The Deka Group is responding to the challenges posed by demographic change. As a sought-after, responsible employer, it attracts highly qualified staff with the aim of fostering their long-term loyalty to the company. The promotion of key qualifications through practical experience, proactive support for equal opportunities for women and men and an active healthcare management policy are thus provided as a matter of course.

Sustainable banking/environmental management: The Deka Group is committed to minimising the impact of its business operations on the environment. It acts on the basis of appropriate environmental guidelines and has a certified environmental management system in accordance with DIN EN ISO 14001, which since 2016 has been extended to include a regular energy audit pursuant to DIN EN 16247-1, in accordance with the provisions of the German Act on Energy Services and Energy Efficiency Measures (*Gesetz über Energiedienstleistungen und andere Energieeffizienzmaßnahmen* – EDL-G). During 2017, DIN EN ISO 14001 will be converted to DIN EN ISO 14001:2015.

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

The Deka Group's services were audited by leading national and international rating agencies specialising in sustainability, and have been awarded high ratings.

During the reporting year, the Deka Group once again enhanced its attractiveness for investors who place value on sustainability principles.

At the end of April 2016, MSCI – a global provider of sustainability analyses and environmental, social and governance (ESG) ratings – confirmed its initial very good AA rating, first awarded at the end of 2015. Furthermore, in September 2016 the Deka Group improved its overall score in oekom research's corporate rating by one notch to "C+". This is one of the best grades currently awarded by oekom research in the banking sector, and corresponds to "Prime" status. This strong rating will make the Deka Group's issues and products particularly interesting to investors whose investments must meet certain environmental and social criteria. This is also confirmed by other ratings awarded by respected rating agencies specialising in sustainability aspects.

Detailed information on the Deka Group's sustainable corporate governance can be found in the annual sustainability report.

Organisational structure

During the 2016 reporting year, the Deka Group's activities were arranged in four business divisions. The Securities and Real Estate business divisions cover Deka's asset management activities, with the Real Estate business division also incorporating property financing. The Capital Markets and Financing business divisions relate to the Deka Group's banking business. The business divisions work closely with one another and with the sales departments and corporate centres. Alongside non-core business, they form the basis for the Deka Group's segment reporting in accordance with IFRS 8.

At the start of the 2016 financial year, any securities investments not used as a liquidity reserve but rather as a strategic investment were transferred from the Treasury corporate centre to the Capital Markets business division. As part of this new arrangement, Treasury took over responsibility for group-wide liquidity management across all maturity bands. The previous year's results presented within segment reporting have been adjusted accordingly as a result of the structural change.

Securities business division

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

The product range comprises

- fundamental and quantitative actively managed, mutual securities funds in all major asset classes (equities, bonds, money market and mixed funds, capital protected funds as well as any combination of these),
- products relating to fund-based asset management, including *Deka-Vermögenskonzept* (Deka Wealth Concept), asset management funds (funds of funds) such as *Deka-BasisAnlage* (Deka Basic Investment), and fund-linked private and company pension products,
- special funds for traditional and alternative investments, advisory/management mandates and solution-based asset servicing offerings with an emphasis on master KVGs for institutional customers, and
- passively managed index funds (exchange-traded funds – ETFs).

The product offering in the Securities business division is supplemented by customised and standardised securities-related services, such as macro/funds/securities research, fund reporting, overlay management and transition management.

Products and solutions are marketed under the brands Deka Investments (for retail products), Private Banking and Deka Institutionell (institutional products). The products of LBB-INVEST (Landesbank Berlin Investment GmbH) complete the range of mutual and special funds offered by the Deka Group. Going forward, this subsidiary is being strategically restructured, and will concentrate on the establishment and distribution of externally-managed and advised mutual funds.

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

Real Estate business division

The Real Estate business division offers property investment products for private and institutional investors as well as credit funds. Until the end of 2016, its activities also encompassed the financing of commercial property. The business division's focus is on the office, shopping, hotel and logistics segments. In property-related asset management, the range of services includes the purchase and sale of marketable commercial properties in liquid markets as well as their value-oriented development.

The product range includes open-ended mutual property funds, special funds with both open and closed investor structures, individual property funds and credit funds. The institutional product range is currently being expanded to include an additional property fund of funds and club deals in the form of open-ended property funds or property funds set up through limited liability investment partnerships.

The Deka Immobilien GmbH subsidiary is responsible for global buying and selling of properties, property management and all other services related to property investment funds, covering all of the funds offered. The two capital management companies, Deka Immobilien Investment GmbH and WestInvest Gesellschaft für Investmentfonds mbH, focus on active portfolio and risk management. Responsibility for the issue and management of credit funds that invest in property, infrastructure or transport sector financing lies with Deka Investors Spezial-Investmentaktiengesellschaft mit veränderlichem Kapital und Teilgesellschaftsvermögen, which is externally administered by Deka Immobilien Investment GmbH.

The business division's objective is to further consolidate its position as a major international real estate asset manager by adopting a quality- and stability-oriented approach.

Commercial property financing activities, which still fell within the Real Estate business division during the reporting year, are geared to the markets, business partners and property types that are also relevant to investment fund business. Broad-based access to the market and investors means that property financing reinforces asset management activities.

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 market business. As such, the business division provides the link between customers and the capital markets. The business division's portfolio is optimised on an ongoing basis in light of regulatory requirements and taking into account the needs of customers.

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. The business division thus enables customers to carry out transactions in all asset classes. It serves as a centre of competence for trading and structuring capital market products as well as for DekaBank's issuance business. It also offers institutional customers clearing services, thus helping them to fulfil regulatory requirements efficiently.

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

- The Collateral Trading unit brings together all securities lending products, securities repurchase transactions and customer-oriented foreign exchange business.
- The Trading & Structuring unit is the Deka Group's centre of competence for trading and structuring capital market products in all asset classes, both for bond and certificate issuance business and for strategic investments.
- The Commission Business unit executes trading transactions with stock exchange traded securities and derivatives on behalf of customers within and outside the Group.

The business division's aim is to continue to offer functions of strategic importance to the *Wertpapierhaus* of the *Sparkassen-Finanzgruppe*, despite a difficult market environment, by exploiting synergies 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. In this way, the business division acts as a solution and infrastructure provider for the savings banks and other institutional customers.

Financing business division

The Financing business division focuses on financing for the savings banks, infrastructure and transport assets, and export finance backed by export credit agencies (ECAs). Aside from savings bank finance, the business focus is on loans suitable for asset management business, part of which can usually be passed on to banks, savings banks, other institutional investors or the Deka Group's own investment funds.

As part of savings bank funding, loans are granted to the savings banks across all maturity bands. Infrastructure financing comprises the financing of energy, grid, utilities, transport and social infrastructure in Germany and abroad. Transport asset financing is focused on aircraft and ships.

In the Financing business division, in future the core portfolio will be separated from business that is not in line with strategy (the legacy portfolio). The legacy portfolio comprises loans granted before the change in credit risk strategy in 2010. The intention is to selectively extend the core portfolio, while reducing legacy business in a manner that safeguards assets.

Sales

Savings Banks Sales & Marketing

Savings Banks Sales & Marketing focuses on comprehensive sales support for the savings banks in their direct contact with retail and commercial customers as well as in their customer advice and support. It therefore represents an important link between Deka and customer advisers at the savings banks as well as between production and customers within the Group.

To ensure nationwide support, Sales are divided into six sales regions in Germany. Sales directors maintain regular dialogue on markets and customers with the savings banks and associations. In addition, Deka sales representatives and other employees provide the savings banks with on-site assistance in marketing and sales activities as well as with training for customer advisers.

In order to generate active demand from end customers at their savings banks and to support the savings banks in acquiring and retaining customers for securities business, the Deka Group's marketing and communication activities also directly target end customers, in coordination with the savings banks.

- The Sales Management, Marketing and Private Banking unit systematically analyses the needs of clients and the savings banks as well as competitor and market developments, and based on its findings derives forward-looking sales and marketing measures to support the savings banks.
- The Product and Market Management unit is responsible for all matters related to the funds, certificates and wealth management solutions offered and in relation to products for private and occupational pension schemes throughout the entire product life cycle.
- The Digital Multi-Channel Management unit actively supports the savings banks in expanding online securities business. It develops online services along the entire value chain and links these with media-based sales channels and customer service.

Institutional Customer Sales

The Institutional Customer Sales unit supports business with savings banks and with institutional customers outside the savings bank sector. Customer advisers adopt a comprehensive approach, which includes all products and services offered by the Deka Group across all business divisions. In this regard, one tool that assists in customer retention is Asset Servicing, an area in which the Deka Group is one of Germany's leading providers.

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

- The Institutional Customers – Savings Banks & Financial Institutions unit brings together all sales activities in proprietary business with savings banks and other banks. The integrated Strategic Proprietary Business Management & Asset Liability Management team develops methods and applications for institutional customers' interest rate book management and asset allocation. In addition, the comprehensive advisory approach encompasses capital markets business for all customer groups.
- The Institutional Investors unit handles business with insurance firms, companies, public bodies, non-profit organisations and international investors. It also manages relationships with consultants.
- The Institutional Customers Sales Management unit has a cross-cutting function, supporting all aspects of Institutional Customer Sales.

Corporate centres

The Treasury corporate centre is responsible for asset/liability management and thus acts as the resource manager of the Deka Group. It manages liquidity reserves across the Group and guarantee risks from asset management, and manages market risk and default risk in the banking book as well as refinancing of the Deka Group. By setting transfer prices for the whole Group, Treasury manages the structure of the balance sheet within the framework of the current business plan. Treasury chairs the Management Committee Assets/Liabilities (*Managementkomitee Aktiv-Passiv* – MKAP), which regularly addresses issues and decisions in relation to managing the balance sheet structure.

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

Non-core business

With effect from 1 January 2016, the lending business that had until then been managed as part of non-core business was transferred to the Financing business division. The portfolio now mainly consists of legacy business with securitised and structured products and its volume is now relatively small. The remaining transactions are analysed regularly, using a number of different scenarios, with regard to potential appreciations in value, default risk and expected net interest income. Taking into account these criteria, a decision is then taken as to whether to sell or hold the positions or seek further collateral.

Major companies and locations

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

With effect from 1 July 2016, fund accounting and parts of the fund administration were transferred to the investment servicing company State Street as part of the disposal of the business activities of the Dealis Fund Operations GmbH joint venture (50% holding). A long-term contract will ensure that the service for funds and customers of Deka continues to be of a high quality. The formal transfer of Dealis employees took place at the 2016/2017 turn of the year.

Markets and influencing factors

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

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

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

The Deka Group's business divisions all have a strong position in their respective markets. With fund assets (according to the German Investment Funds Association, *Bundesverband Investment und Asset Management* – BVI, as at 31 December 2016) of €118.4bn and a market share of 14.3%, Deka is Germany's fourth largest provider of mutual securities funds, while in terms of mutual property funds, with fund assets (according to BVI, as at 31 December 2016) of €26.6bn and a market share of 30.3%, it holds the 2nd position in Germany.

With issue volume once again rising significantly during the reporting year, at the end of 2016 the Deka Group achieved a market share of 13.3% in the primary market for investment certificates and was thus ranked 2nd in Germany. At the same time, Deka has established itself as the market leader in reverse convertible bonds and is the fourth largest provider of express certificate structures.

Risk and profit management at the Deka Group

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

Financial performance indicators

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

The economic result is the key in-house management and performance indicator as defined by IFRS 8 and is based on IFRS accounting standards. In addition to net income before tax, the economic result includes changes to the revaluation reserve before tax as well as the interest rate and currency related valuation result from original lending and issuance business. The interest expense on Additional Tier 1 bonds, which is reported directly within equity (Additional Tier 1 capital), is also included in the economic result. Furthermore, potential future charges are included in the economic result if the probability of such charges arising in the future is assessed as possible but they may not yet be recorded in IFRS reporting, due to the fact that accurate details are not available. The aim of adjustments compared with net income before tax (under IFRS) is to reflect actual growth during the period under review.

The economic result has been used in external reporting at Group and business division level since 2007. For information on reconciling the economic result with net income before tax according to IFRS, refer to segment reporting in note [2], which shows the measurement and reporting differences in the “reconciliation” column. This ensures that it is possible to reconcile the figures presented with net income before tax.

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

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

Non-financial performance indicators

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

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

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

A distinction is made here between:

- mutual funds and fund-based asset management,
- special funds and mandates,
- certificates and
- ETFs.

The trend in the two key non-financial performance indicators during the reporting year is described in the section on business development and profit performance at Deka Group level and of the Securities, Real Estate and Capital Markets business divisions.

Economic report

Economic environment

In 2016, the money and capital markets were once again shaped by the expansionary monetary policies of central banks in Europe, Japan and the USA. The European Central Bank's (ECB's) negative interest rate on deposits meant that returns on bond and money market products remained at an extremely low – and at times negative – level, which severely limited the income achievable from banks' and funds' liquid investments. The market environment also had an adverse impact overall on capital market and financing business. Demand in short-term capital markets business remained subdued in view of the virtually limitless availability of liquidity. Towards year-end, the US Federal Reserve's increase to key interest rates in December along with relatively good economic expectations suggested that the downturn had bottomed out, however there were no signs of an appreciable upward trend on the bond markets.

Conditions in asset management also worsened compared to the previous year. Despite the unattractive interest rates on deposits, which favoured securities investments, mutual investment funds recorded substantially lower cash inflows than in the previous year. Trends in the equity markets during the first half of the year contributed to the cautious attitude of investors. After a noticeably negative performance at the start of the year, continued political uncertainty curbed any sustained recovery in share prices, such that they largely moved sideways. Temporary turbulence arose during the Brexit vote in particular. By the end of the year, positive trends in corporate earnings and leading economic indicators provided fresh momentum. The equity markets also responded positively to the outcome of the presidential election in the USA. Volatility declined somewhat in comparison with the previous year, which had a negative impact on trading activities. The market for retail certificates and warrants also continued to cool. In property-related asset management, growth will continue to be constrained by the limited supply of properties in the core segment with acceptable yield profiles.

Overall economic conditions

Global growth momentum once again slowed slightly during 2016. According to estimates from Deka economists, global gross domestic product grew by just 2.9% during 2016, following growth of 3.0% in 2015. Declining growth rates were recorded in both the USA and Europe and in China. Only towards the end of the year did global leading indicators point towards economic recovery.

The eurozone recorded growth in gross domestic product of 1.7%, following growth of 1.5% in the previous year. The first half of the year in particular was dominated by political uncertainty, although this became less marked in the autumn. No negative effects arose from the Brexit vote or the drawn-out formation of a government in Spain.

At 1.9%, German gross domestic product grew somewhat more strongly in 2016 than in the previous year and also exceeded that of the eurozone as a whole. In this regard, private and government consumer spending proved to be an essential pillar for the economy, whereas new industrial orders and exports weakened.

Sector-related conditions

Trends in money and capital markets

Due to the significant downward revision of its inflation forecasts, on 10 March 2016 the ECB lowered the main refinancing rate from 0.05% to 0.00% and reduced the deposit rate by another 10 basis points to –0.40%. In addition, it increased the volume of bond purchases from €60bn to €80bn per month and commenced the purchase of non-financial sector corporate bonds. In December, the ECB announced that it would continue its securities purchases beyond March 2017, although only at a monthly level of €60bn. At the same time, however, it decided on changes to the programme's rules in order to counteract the shortage of long-term government bonds. The yields on ten-year government bonds already returned to positive territory in the run-up to the decision.

Spreads for corporate bonds tightened considerably as a result of the ECB's programme of bond purchases and the improved economic outlook, resulting at times in negative yields. The impact of the US election resulted in only a short-term increase in risk aversion. On a global basis, rising corporate earnings also sustained the tight spreads.

Yields on covered bonds and *Pfandbriefe* are following the upward trend of government bonds, at times reaching positive yield territory. As a result of the ongoing purchases by national central banks and a low number of new issues, the market has thinned out considerably.

Conditions for German equities remained fundamentally positive. Sentiment among companies, as measured by the ifo Economic Climate Index and the Purchasing Managers Index, was buoyant throughout the year, in light of the favourable financing conditions and improved economic prospects. In many cases, corporate sales and earnings exceeded analysts' forecasts. Towards the end of the year, slight uncertainty was reflected in business expectations (according to the ifo Economic Climate Index) following the surprising outcome of the US election, but the Purchasing Managers Index continued to rise. The German stock index (DAX) rose by 6.9% compared with the end of 2015 (10,743), to 11,481. The EURO STOXX 50 closed 0.7% above the 2015 year-end value while the Dow Jones recorded a significant gain of 13.4%.

Trends in property markets

In European property markets there continued to be buoyant demand, driven by the favourable funding situation. However, the transaction volume did not quite reach the level of the previous year. Rentals rose further for both office space and logistics properties, with the latter benefiting in particular from booming online trade and restructuring in the retail sector. The decline in vacancy rates continued.

Initial returns in Europe (excluding the UK) continued to drop in 2016. The sharpest declines were experienced at locations in Germany, Eastern Europe and Spain. In the UK, where returns had already been stagnating since mid-2015, there were signs of an upward trend following the Brexit vote.

In the USA, demand for class A office space was somewhat weaker than in the prior year. Vacancy rates reduced marginally across the country, however the volume of new construction saw a moderate increase compared with previous years. Rental growth slowed in a number of locations, such as San Francisco and Seattle. Initial returns in the leading markets remained at historically low levels.

Asian office markets recorded high demand from international and regional institutional investors. Some markets, such as Singapore and Australian cities with a strong concentration of commodity companies, experienced falling rents. Vacancy rates rose slightly for the whole region. Returns at Australian locations fell even further.

Investor attitudes

In 2016, mutual funds, as recorded by the BVI, once again achieved a positive net inflow of funds (€6.5bn), although this was €65.4bn below the very strong level of the previous year. Mixed funds, much sought after in the previous year, suffered losses, while equity funds slid into negative territory. Mutual property funds and alternative investment funds recorded gains.

Sales of special funds also declined. The net inflow of funds was more than €24.3bn below the comparative figure for 2015, but at €96.3bn nonetheless remained clearly positive.

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 2016 financial year. Regulatory projects entail particularly significant costs and resource requirements.

Regulatory topics

The framework used to determine the minimum capital requirement for counterparty credit risks, which has been governed by the Capital Requirements Regulation (CRR) since January 2014, is currently being revised by the Basel Committee as part of the forthcoming Basel IV reforms. According to the supervisory authority's plans, there will be greater emphasis on the new Credit Risk Standardised Approach (CRSA). Deka currently applies the Internal Ratings-Based (IRB) approach to the majority of its loans. In future, the CRSA will need to be calculated for these loans in parallel. The risk-weighted assets for counterparty risks will then be set a minimum level equivalent to an as yet unspecified percentage – a so-called floor – of the RWAs under the CRSA. The risks weightings under the CRSA are significantly higher than under the IRB approach. Potentially, therefore, the capital requirement could rise enormously, depending on the still to be established level of the floor. In addition, the Basel Committee plans to greatly restrict application of the IRB approach. This would mean that the majority of Deka's portfolios would need to be assessed exclusively using the CRSA. According to the current status of negotiations on Basel IV, the restriction on using the IRB approach may yet be toned down. The timing of the first-time application of Basel IV in the area of counterparty risks is not yet known.

Another issue linked to Basel IV concerns the 'fundamental review of the trading book' (FRTB). The final standard for determining capital requirements for market risk was published in January 2016. At present, it is anticipated that first-time application for EU credit institutions will be legally binding in 2021. It contains amended provisions on defining boundaries between the banking book and trading book, an amended standardised approach and a revised internal model. The new regulation is expected to lead to an increase in RWAs.

As part of the revision to European capital and liquidity regulations (CRR II/CRD V), there are also plans to tighten the large exposures regime. The large exposure limit will no longer be defined according to the level of total own funds, but instead according to the level of Equity Tier 1 capital. In addition, when collateral is accepted, the collateral provider or issuer of the financial collateral shall be required to take the loan into account in their large exposure limit. As a result of the more stringent provisions, dealing with large exposure risks will be managed in a more restrictive manner.

In the course of implementing the Bank Recovery and Resolution Directive (BRRD) as well as the accompanying regulation on the Single Resolution Mechanism (SRM), in the second half of 2016 the resolution authority began to draft the recovery plan for DekaBank, which will continue to be refined during 2017. Preparation of the plan will include an assessment of DekaBank's resolvability. If the competent resolution authority should identify obstacles to recovery, it may demand that DekaBank take steps to eliminate them.

Under the BRRD, banks are also obliged to adhere to minimum requirements on holding own funds and eligible liabilities for the purposes of loss absorption and recapitalisation in the event the bank is wound up (Minimum Requirement for Eligible Liabilities – MREL). The amount of this minimum requirement will be determined by the resolution authority on the basis of the recovery plan, at the level of individual institutions. A mandatory MREL to be maintained has not yet been specified for DekaBank.

Directive 2014/49/EU of the European Parliament and of the Council of April 2014 on deposit guarantee schemes (European Deposit Guarantee Schemes Directive) harmonised the requirements for national deposit guarantee schemes at a European level, and was transposed into German law in mid-2015. A comprehensive protection obligation together with improved funding requirements were introduced for all credit institutions. In addition, the time limits for paying compensation to depositors were reduced. However, the reforms are not yet complete. In the June 2015 report "Completing Europe's Economic and Monetary Union", the Presidents of the European Commission, the Euro Summit, the Eurogroup, the European Central Bank and the European Parliament proposed introducing a single European deposit insurance scheme (EDIS). The intention is for this to form the third pillar of a banking union alongside the Single Supervisory Mechanism and the Single Resolution Mechanism. Such a system could be developed at European level initially as reinsurance for national deposit guarantee schemes.

Product and performance-related regulatory proposals

As they deal with investor protection and market infrastructure, the revised Markets in Financial Instruments Directive (MiFID II) and the accompanying Markets in Financial Instruments Regulation (MiFIR), which govern the performance of investment services in regulated markets and OTC trading, affect virtually the entire product and services portfolio of the Deka Group. The directives include new regulations in relation to commission, product governance and record-keeping obligations aimed at improving investor protection, as well as extended obligations for institutions with proprietary trading ("systematic internaliser"), new provisions for automated trading and derivatives trading, and new reporting obligations in securities trading. DekaBank is implementing the requirements in close cooperation with the DSGV. First-time application is scheduled for January 2018. For DekaBank this will lead in particular to higher costs for securities and derivatives trading and also liability risks.

Tax policy developments

At a national level, attention should be paid to changes resulting from the German Investment Tax Reform Act (*Investmentsteuerreformgesetz* – InvStRefG), which will generally take effect from 1 January 2018. This means that in future both mutual funds and special funds will be liable to corporation tax on income from domestic equities, rental income and gains on property disposals. For this there will be a flat rate, pro-rated tax exemption depending on specific investment ratios. The reform is not aimed at increasing the tax burden for investors.

Tax risks arise as a result of recent judgements by fiscal courts regarding attribution of the beneficial ownership of shares that have been acquired through securities lending transactions. The tax policy approach and the fiscal authorities' final interpretation of developments in case law are still pending. In the individual and consolidated financial statements, all matters have been considered on the basis of currently applicable legislation.

Business development and profit performance in the Deka Group

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

With an economic result of €415.1m, the Deka Group finished the reporting year below the strong result of the previous year, €610.6m, in line with expectations. The decline was primarily due to significantly higher allocations to loan loss provisions in relation to ship financing, as a result of market conditions. At €1,107.4m, commission income, an important and sustainable component of earnings, was able to match the good prior year figure.

In asset management growth momentum remained intact. Despite an extremely challenging capital market environment, net sales performance remained at a high level, and at €16.9bn was only 13.3% below the high result of the previous year (€19.5bn). A reduction in relation to mutual funds, which was, however, less pronounced than the level experienced by competitors, thanks to significant growth in equity and property funds as well as the successful introduction of new multi-asset products, was offset by robust growth in certificates. Due to the high level of net fund inflows overall, Deka was able to consolidate its market position. The high levels achieved in the previous year were not quite reached for special funds and mandates.

Net sales Deka Group *(Fig. 1)*

€m	2016	2015
Net sales Deka Group	**16,914**	**19,505**
by customer segment		
Retail customers	7,710	10,196
Institutional customers	9,204	9,308
by product category		
Mutual funds and fund-based asset management	4,265	8,462
Special funds and mandates	4,933	5,861
Certificates	7,528	4,569
ETFs	188	613

The increase of €16.8bn in total customer assets to €256.8bn reflects both a high level of new business and the healthy performance of individual products, offset by outflows due to distributions.

Total customer assets Deka Group *(Fig. 2)*

€m	31 Dec 2016	31 Dec 2015	Change	
Total customer assets Deka Group	**256,805**	**240,045**	16,760	7.0%
by customer segment				
Retail customers	128,650	123,058	5,592	4.5%
Institutional customers	128,155	116,987	11,168	9.5%
by product category				
Mutual funds and fund-based asset management	130,471	126,351	4,120	3.3%
Special funds and mandates	102,934	94,846	8,088	8.5%
Certificates	15,079	11,797	3,282	27.8%
ETFs	8,321	7,050	1,271	18.0%

Utilisation of risk capacity fell further compared to the already modest level at the end of 2015 (41.6%) and was 35.2% at the 2016 reporting date. Decisive factors for this included the sharper fall in total risk due to the selective reduction of positions combined with a slight simultaneous decline in risk capacity.

The Deka Group's liquidity position remained very comfortable throughout the year and across all relevant maturities. The minimum requirements for the liquidity coverage ratio (LCR) were clearly exceeded.

The Common Equity Tier 1 capital ratio, which is calculated by reference to the CRR/CRD IV requirements without the transitional provisions (fully loaded), increased considerably compared to the 2015 year-end (12.4%), to 16.7%. Crucial to this was the noticeable decrease in risk assets due to the reduction in market risk positions, but most of all the first-time application of an internal model for general market price risk. Common Equity Tier 1 capital was strengthened through reinvestment of net profits from 2015. The total capital ratio (fully loaded) amounted to 22.2%.

DekaBank achieved a satisfactory result in the EU-wide bank stress tests conducted by the European Banking Authority (EBA). In the baseline scenario it attained a Common Equity Tier 1 capital ratio of 14.2% as at the end of 2018. In the adverse scenario the resulting Common Equity Tier 1 capital ratio was 9.5% as at the same date. This means that DekaBank is solidly positioned even in the event of extreme macroeconomic developments. The EBA did not stipulate a target minimum ratio.

As a result of the Supervisory Review and Evaluation Process (SREP) conducted in 2016, new minimum capital requirements were set for the Deka Group for the 2017 financial year.

According to these, the required Common Equity Tier 1 capital ratio (including the transitional provisions) is 7.18%. This ratio is composed of the Pillar 1 minimum capital requirement (4.5%), the Pillar 2 requirement (P2R, 1.25%), the capital conservation buffer (1.25%), the countercyclical capital buffer (currently 0.02%) and the capital buffer for other systemically important institutions (0.16%). The capital requirement for the total capital ratio (phase-in) is 10.68% for 2017.

At the end of the year, the Deka Group significantly exceeded the SREP requirement.

Comparison of forecast and actual growth

Expectations regarding Deka Group's results in 2016, as set out in the forecast report of the 2015 Group management report and updated in the 2016 interim report, were largely confirmed or exceeded.

Deka Group key performance indicators *(Fig. 3)*

		31 Dec 2015	Forecast report 2015	Half-year report 2016	31 Dec 2016	Change	
Economic result	€m	610.6	At around the average of last five years	Moderately below the long-term average	415.1	−195.5	−32.0%
Total customer assets	€bn	240.0	Slight increase	Slight increase	256.8	16.8	7.0%
Net sales	€bn	19.5	Slight decrease	Slight decrease	16.9	−2.6	−13.3%
Common Equity Tier 1 capital ratio	%	12.4	At around the previous year	At around the half year figure	16.7	4.3%-points	
Utilisation of total risk-bearing capacity	%	41.6	Moderate increase	Moderate increase	35.2	−6.4%-points	

Ratings

DekaBank's ratings remain some of the best among its peer group of German commercial banks. During the course of the financial year and at the start of 2017, the rating agency Moody's confirmed the "long-term senior unsecured and issuer rating" as Aa3, while its deposit rating has been Aa2 since being raised by one notch in January 2016. The outlook for both ratings is stable. The short-term rating remains unchanged at P-1. In September 2016, Standard & Poor's (S&P) confirmed the long-term issuer rating of A with a positive outlook as well as the short-term rating of A-1. In February 2017, S&P reassessed DekaBank's issuer rating and raised it considerably to A+ with a stable outlook, primarily due to the sustainable integration of DekaBank in the *Sparkassen-Finanzgruppe*. The short-term rating was once again confirmed as A-1.

In light of new insolvency legislation in force in Germany since January 2017, in 2016 Moody's and S&P decided to reflect in their ratings the difference between the insolvency rankings of those senior (unsubordinated) unsecured liabilities that in the event of insolvency rank before debt securities within the meaning of Section 46f (6) p.1 of the German Banking Act (*Kreditwesengesetz* – KWG) (complex structured bonds), and other senior unsecured liabilities. This means that senior unsecured bonds are now split between two classes. In accordance with this subdivision, at the end of November Moody's upgraded the rating of structured bonds to the deposit rating (Aa2) and introduced a separate debt classification (senior-senior unsecured debt) for these instruments. In mid-December, S&P commenced a rating watch action for senior unsecured bonds, which it concluded in February 2017. As announced, S&P has now introduced an additional debt classification. This subdivides the former 'senior unsecured debt' class into two layers, 'senior unsecured debt' and 'senior subordinated debt'. S&P designates complex structured bonds as senior unsecured debt. Senior unsecured liabilities are classified as senior subordinated debt. Bonds classified as senior unsecured debt are now rated A+, while those in the senior subordinated debt category are rated A.

The ratings for *Pfandbriefe* issued by DekaBank have not changed, with S&P providing a rating of AAA and Moody's rating them at Aaa.

The rating assessments of both agencies reflect the high strategic importance of the Deka Group to the savings bank sector as well as the adequate capital and liquidity base for its business model. The stable short-term ratings in particular are crucial to the Group's ability to fully implement a diversified funding strategy.

Profit performance of the Deka Group

With an economic result of €415.1m (previous year: €610.6m), as expected the Deka Group was unable to reach the level of the strong prior year result. The decline in the result is essentially attributable to market-related factors such as the low interest rate environment, but most of all is due to revised forecasts for ship charter rates and sharply falling ship values, which led to very high allocations to loan loss provisions for existing loans in relation to ship financing granted before 2010. Commission income was almost able to match the result of the previous year, while financial income actually exceeded the comparative figure for 2015. Overall, income (after provisions for loan losses) of €1,524.1m in the previous year decreased to 1,403.7m. Expenses rose in comparison to the previous year to €988.6m, in line with expectations. This was due in particular to higher personnel and operating expenses as part of the ongoing development of the multi-channel strategy as well as for projects to fulfil regulatory requirements.

The cost/income ratio increased marginally from 57.7% at the previous year-end reporting date to 60.7%. Return on equity (before tax) was 9.4% (previous year: 14.8%). The year-on-year decline in the ratio reflects the increased equity but also the lower economic result.

As expected, net interest income fell compared with the previous year's figure (€182.7m) to €139.2m. The tough market conditions led to a lower contribution to earnings from short-term liquidity investment. In both the Financing business division and the real estate financing within the Real Estate business division, net interest income was moderately below the previous year's result.

The requirement for loan loss provisions rose substantially compared with the previous year's figure, increasing from €79.5m to €209.8m. Lending accounted for €194.6m (previous year: €65.2m). This was largely due to additions to specific provisions in the Financing business division – especially for loans in relation to ship financing granted prior to 2010. Risk provisions for securities in the categories 'loans and receivables' (LaR) and 'held to maturity' (HtM) amounted to €15.2m and were thus close to the level of the previous year (€14.3m).

At €1,107.4m, commission income was able to almost equal the previous year's good result of €1,111.0m. Viewed from a net perspective, portfolio commissions in investment fund business were around the level of the previous year, despite the lower average annual share price levels. The increase in total customer assets due to strong net sales performance and solid fund performance was a contributing factor. In addition, buying and construction fees in property fund business exceeded the comparative figure for 2015. By contrast, commission income from banking transactions fell, primarily due to lower contributions from commission business.

Total net financial income increased overall by 57.4% to €316.5m (previous year: €201.1m). This comprises all income elements of the trading book portfolios, the valuation result and net income from selling relating to the banking book portfolios and the above-mentioned risk provisions for securities in the LaR and HtM categories.

Net financial income from trading book portfolios reduced by 13.7% versus the high level of the previous year (€292.9m) to €252.8m. The contribution to earnings from the Collateral Trading unit declined, as expected. The Trading & Structuring unit was able to match the strong performance of the previous year as a result of exceptionally high demand for structured securities. In the previous year, net financial income included income from the release of a general provision for potential risks of €17.6m.

Net financial income from banking book portfolios of €78.9m significantly exceeded the comparative figure for 2015 (€–77.5m). This was primarily due to positive valuation effects brought about by the development of spreads in own issues. Conversely, in the previous year the result was adversely affected by negative valuation effects. During the reporting year, an amount of €10m was booked to the general provision to cover potential risks.

Within the previous year's net financial income, a reduction to the provision resulted in a positive contribution to earnings totalling around €13m. Additions to or releases from the general provision are reflected in the economic result outside the IFRS profit or loss and without specific allocation to business divisions. The risk provision for securities (LaR/HtM) mentioned above varied only marginally from the previous year's figure.

Other operating income in the amount of €35.2m was substantially lower than the previous year's figure of €94.5m. This was primarily attributable to actuarial losses relating to pension provisions amounting to €15.2m, due to a decline in the actuarial interest rate from 2.30% to 1.95%. In the previous year, actuarial gains of €55.4m were recorded. Actuarial effects are not included in the IFRS income statement as they are posted directly in equity (revaluation reserve). However, they are reported in the economic result as profit or loss for the period. In the current year the result includes positive effects due to the acquisitions of S Broker and LBB-INVEST, which was acquired on 1 January 2014.

Personnel expenses increased compared with the previous year (€469.9m) to €488.4m – a rise of 3.9%. Reasons for this include an increase in full-time equivalent employees, among other things in connection with the expansion of the Digital Multi-Channel Management unit and the acquisition of S Broker, as well as collectively agreed salary increases.

Operating expenses (excluding depreciation and amortisation as well as the bank levy) recorded an increase of 9.4% to €429.2m (previous year: €392.5m). In particular, consultancy expenses for projects to meet regulatory requirements as well as expenditure on computer equipment and machinery were noticeably higher than in the previous year.

At €34.4m, the bank levy was close to the level of the previous year (€34.8m).

Depreciation and amortisation fell compared with the previous year's figure (€20.2m) to €18.1m. The main reason for this was a reduced level of amortisation on intangible assets.

During the reporting year, provisions of around €18.5m were created for restructuring in relation to the strategic reorganisation of LBB-INVEST. Results in the previous year still included a positive effect of €3.9m from the release of restructuring provisions no longer needed.

Profit performance Deka Group *(Fig. 4)*

€m	2016	2015	Change	
Net interest income	139.2	182.7	−43.5	−23.8%
Provisions for loan losses	−194.6	−65.2	−129.4	−198.5%
Net commission income	1,107.4	1,111.0	−3.6	−0.3%
Net financial income[1)]	316.5	201.1	115.4	57.4%
Other operating income	35.2	94.5	−59.3	−62.8%
Total income	**1,403.7**	**1,524.1**	−120.4	−7.9%
Administrative expenses (including depreciation)	970.1	917.4	52.7	5.7%
Restructuring expenses	18.5	−3.9	22.4	(> 300%)
Total expenses	**988.6**	**913.5**	75.1	8.2%
Economic result	**415.1**	**610.6**	−195.5	−32.0%

[1)] Net financial income includes risk provisions for securities in the LaR and HtM categories of €–15.2m (previous year €–14.3m).

Business development and profit performance in the business divisions

Business development and profit performance in the Securities business division

Against the backdrop of a predominantly difficult market climate the Securities business division achieved satisfactory net sales, which – as expected – fell short of the previous year's exceptional result. The economic result, also boosted by the increase in total customer assets, slightly exceeded the figure of the previous year.

Net sales performance and total customer assets

In spite of uncertainty on the markets, net sales in the Securities business division were again clearly in positive territory. At €6.9bn, net sales were below the previous year's level (€13.2bn).

Mutual securities funds, including fund-based asset management, accounted for €2.5bn (previous year: €7.0bn). A cautious attitude on the part of investors impacted direct sales of mutual funds in particular, which achieved net sales of €0.9bn (previous year: €3.8bn). Net sales of bond funds and mixed funds were perceptibly lower than in the previous year. By contrast, investors placed more in equity funds, which were significantly up against the previous year. *Deka-DividendenStrategie* (Deka Dividend Strategy) in particular recorded positive inflows.

Net sales in fund-based asset management totalled €1.6bn (previous year: €3.2bn). As was the case in the previous year, *Deka-BasisAnlage* (Deka Basic Investment) and *Deka-Vermögenskonzept* (Deka Wealth Concept) were key drivers of this performance.

ETFs achieved net sales of €0.2bn, and were thus unable to reach the 2015 level (€0.6bn).

For special securities funds, master funds and mandates (advisory/management mandates), net sales performance stood at €4.3bn (previous year: €5.6bn).

Net sales Securities business division *(Fig. 5)*

€m	2016	2015
Net sales Securities business division	**6,932**	**13,169**
by customer segment		
Retail customers	2,258	6,356
Institutional customers	4,674	6,813
by product category		
Mutual funds and fund-based asset management	2,474	6,988
ETFs	188	613
Special funds and mandates	4,269	5,568

The business division's total customer assets rose by 5.3% to €209.2bn (end of 2015: €198.7bn). In addition to inflows, this was driven in particular by fund performance, above all that of special and master funds.

Total customer assets Securities business division *(Fig. 6)*

€m	31 Dec 2016	31 Dec 2015	Change	
Total customer assets Securities business division	**209,242**	**198,743**	10,499	5.3%
by customer segment				
Retail customers	96,169	94,379	1,790	1.9%
Institutional customers	113,073	104,365	8,708	8.3%
by product category				
Mutual funds and fund-based asset management	103,857	101,695	2,162	2.1%
thereof equity funds	26,061	24,247	1,814	7.5%
thereof bond funds	35,663	36,262	−598	−1.6%
thereof mixed funds	15,335	16,560	−1,226	−7.4%
ETFs	8,321	7,050	1,271	18.0%
Special funds and mandates	97,064	89,999	7,066	7.9%

Profit performance in the Securities business division

The economic result in the Securities business division increased versus the strong result of the previous year, from €306.0m to €338.5m. This was also due in part to higher commission income. The decline in net interest income was more than offset by an improvement in net financial income as well as positive effects from the acquisition of S Broker, such that total net income grew considerably.

The increase in expenses is mainly attributable to higher marketing and sales expenses.

Profit performance Securities business division *(Fig. 7)*

€m	2016	2015	Change	
Net commission income	801.4	781.6	19.8	2.5%
Other income	70.8	–20.7	91.5	(> 300%)
Total income	**872.2**	**760.9**	111.3	14.6%
Administrative expenses (including depreciation)	507.6	458.9	48.7	10.6%
Restructuring expenses	18.5	–4.0	22.5	(> 300%)
Total expenses	**526.1**	**454.9**	71.2	15.7%
Economic result without Treasury function	**346.1**	**306.0**	40.1	13.1%
Treasury function	–7.6			
Economic result	**338.5**	**306.0**	32.5	10.6%

Business development and profit performance in the Real Estate business division

The Real Estate business division operated successfully in international transaction markets, despite high demand for prime properties. The launch of new products in both retail and institutional business laid the foundation for further growth. As expected, the economic result did not match the comparative figure for 2015, which was influenced by non-recurring one-off factors. Earnings were slightly above the adjusted figure for the previous year.

Net sales performance and total customer assets

At €2.5bn, net sales in the business division significantly exceeded the performance of the previous year (€1.8bn). For open-ended mutual property funds, which achieved net sales of €1.8bn (previous year: €1.5bn), the stipulated sales quotas were utilised in full. Despite very high demand, a conservative management strategy was maintained. Part of the net sales result was due to the reinvestment of distributions. In the second half of the year, the portfolio of open-ended mutual property funds was extended by the addition of *Deka-ImmobilienNordamerika* (Deka Properties – North America), which in the first year since its launch already achieved net sales of €46m. This US-dollar-denominated and non-currency-hedged fund combines growth opportunities in the North American property market with long-term commitments in US dollars and is targeted at the high net worth private client segment.

Special funds and individual property funds also substantially exceeded the sales figures of the previous year. The increase in net sales performance to €0.7bn (previous year: €0.3bn) was driven primarily by special property funds, while individual funds recorded net outflows as a result of planned discontinuations. Credit funds accounted for net sales of €0.1bn. In order to even better satisfy the strong demand from institutional investors – including outside the savings bank sector – for core properties, a new open-ended special fund was launched, *Deka-Immobilien Fokus Prag* (Deka Properties – Focus Prague). This fund is the first product in the new club deal range, which is to be further expanded over the next few years. A property fund of funds with external target funds is also in the pipeline. Furthermore, with the Deka Property Compass the business division provides institutional investors an extensive, modular range of services.

Net sales Real Estate business division *(Fig. 8)*

€m	2016	2015
Net sales Real Estate business division	**2,455**	**1,767**
by customer segment		
Retail customers	1,697	1,431
Institutional customers	758	335
by product category		
Mutual property funds	1,791	1,473
Special funds and individual property funds	664	293

The Real Estate business division's total customer assets rose by 10.1% to €32.5bn (end of 2015: €29.5bn). Mutual property funds accounted for €26.6bn (end of 2015: €24.7bn). It was thus possible to slightly increase market share to 30.3%, as measured by fund assets according to BVI (as at: December 2016). Total customer assets in special funds and individual property funds increased to €5.9bn (end of 2015: €4.8bn). At €1.1bn as at the reporting date, the volume of credit funds included in this figure was slightly up against the previous year. This volume was spread across the property, infrastructure and transport asset financing categories.

Total customer assets Real Estate business division *(Fig. 9)*

€m	31 Dec 2016	31 Dec 2015	Change	
Total customer assets Real Estate business division	**32,484**	**29,504**	2,980	10.1%
by customer segment				
Retail customers	24,781	22,998	1,783	7.8%
Institutional customers	7,703	6,506	1,197	18.4%
by product category				
Mutual property funds	26,614	24,657	1,957	7.9%
Special funds and individual property funds	5,870	4,847	1,023	21.1%

The increase in total customer assets was driven by healthy fund performance as well as positive net sales performance. Over the year as a whole, mutual property funds generated an average volume-weighted yield of 2.4% (previous year: 2.4%). The competitive yield compared with the market is boosted by the balanced investment strategy in asset management. Business activities continue to centre on properties in the office, shopping, hotel and logistics asset classes. On the sales side, fund managers adopted a cautious approach despite the high level of prices, in order to keep the liquidity ratio low. As at the reporting date, this was below 20% across all property funds. In addition, yield opportunities outside the eurozone were increasingly exploited, with the expansion of the North American business as well as the entry into the Swiss market during the reporting year.

Transaction volume for property purchases and sales totalled €4.3bn, as in the previous year. Around 85% of the total transaction volume was attributable to purchases of a total of 55 contractually secured properties, and the rest to 21 disposals. The Deka Group thus remains one of the world's biggest property investors for its property funds. Credit funds acquired a total of 12 loans with a volume of around €187.0m. In lending business too, the supply side limited opportunities for growth.

Property financing

At a satisfactory volume of €3.8bn, new business arranged in property financing was only moderately below the exceptional figure reported in 2015 (€4.4bn). The volume of external placements stood at €1.7bn, slightly above the level of the previous year (€1.6bn). As in previous years, more than 50% of loans were placed with members of the *Sparkassen-Finanzgruppe*.

At the 2016 year-end, the loan portfolio stood at €7.1bn, exceeding the prior year figure (€6.9bn). The average rating for the loan portfolio according to the DSGV master scale remained unchanged at 4. This corresponds to a rating of BBB– on S&P's external rating scale. Including the portfolio secured by collateral, the rating according to the DSGV master scale improved by one notch to AA+ (equivalent to a rating of AA on the S&P scale).

Out of the total portfolio, €6.1bn (end of 2015: €5.7bn) was attributable to commercial property financing, €0.9bn (end of 2015: €1.0bn) to open-ended property fund financing and €0.1bn (end of 2015: €0.2bn) to public-sector construction projects, a segment which is being phased out.

Profit performance in the Real Estate business division

The Real Estate business division achieved a strong economic result of €128.5m, compared with the previous year's figure of €133.5m, as adjusted to exclude the €30.5m one-off effect from the sale of property used by the Group itself. Income amounted to €287.6m, representing an increase of €7.5m compared to the previous year's figure as adjusted for one-off effects (€280.1m). This was driven by improved commission income as well as the release of risk provisions. This more than compensated for the sharp fall in net interest income caused by market conditions.

The increase in expenses to €156.2m (previous year: €146.6m) is mainly attributable to higher project expenses. These relate primarily to projects with a regulatory background covering all business divisions.

Profit performance Real Estate business division *(Fig. 10)*

€m	2016	2015	Change	
Net interest income	56.1	61.4	−5.3	−8.6%
Provisions for loan losses	4.8	−3.7	8.5	229.7%
Net commission income	228.7	220.9	7.8	3.5%
Net financial income	−4.0	−4.6	0.6	13.0%
Other operating income	2.0	36.6	−34.6	−94.5%
Total income	**287.6**	**310.6**	−23.0	−7.4%
Administrative expenses (including depreciation)	156.2	146.7	9.5	6.5%
Total expenses	**156.2**	**146.6**	9.6	6.5%
Economic result without Treasury function	**131.4**	**164.0**	−32.6	−19.9%
Treasury function	−2.9			
Economic result	**128.5**	**164.0**	−35.5	−21.6%

Business development and profit performance in the Capital Markets business division

Despite a difficult market climate, the Capital Markets business division generated a strong economic result in the 2016 financial year. However, as expected, this did not reach the high level of the previous year. Its function as the product, solution and infrastructure provider of the *Wertpapierhaus* was further reinforced by the ongoing development of the balanced business and services portfolio.

Business development in the Capital Markets business division

The Trading & Structuring unit – including the contribution to earnings from strategic investments – significantly exceeded the comparative figure for 2015, boosted by high customer demand for structured products and own issues together with positive valuation results in strategic investments. Certificates business once again grew more rapidly than the overall market. At the end of the year, volumes reached €15.1bn (end of 2015: €11.8bn). At €7.5bn, the volume of new business was considerably above the figure for the previous year (€4.6bn). With the strong increase in issue volume, the Deka Group achieved a market share of 13.3% in the primary market for investment certificates (previous year: 9.7%) and was thus ranked 2nd (previous year: 6th) in Germany. At the same time, derivatives and bond trading also surpassed the previous year.

As a result of changes to the business structure, the Collateral Trading unit could no longer achieve the high level of repo/lending business seen in the previous year, but nonetheless achieved a solid result given the low interest rate environment.

The result of the Commission Business unit was below the comparative figure for 2015, but was in line with expectations.

Profit performance in the Capital Markets business division

The Capital Markets business division achieved an economic result of €202.3m. The prior-year result was €275.3m. However, this included positive non-recurring factors amounting to €40.1m, being income from a receivable already written off and the release of a general provision booked in 2013 and no longer required. By contrast, corresponding one-off effects in the year under review amounted to only €11.8m, being income from a receivable already written off and an extraordinary expense in connection with the write-off of a bad debt from 2010. On an adjusted basis, the decline in the result was thus 12.3% compared with the previous year. On the earnings side, this was predominantly attributable to net commission income and net financial income from trading book portfolios, in particular from the Collateral Trading unit.

The moderate decline in income was offset by a slight decline in expenses. At €163.9m, these were €2.4m below the figure for the previous year (€166.3m).

Profit performance Capital Markets business division *(Fig. 11)*

€m	2016	2015	Change	
Net interest income	40.7	43.3	−2.6	−6.0%
Provisions for loan losses	0.1	0.1	0.0	0.0%
Net commission income	66.9	100.5	−33.6	−33.4%
Net financial income	262.3	273.7	−11.4	−4.2%
Other operating income	12.1	24.0	−11.9	−49.6%
Total income	**382.1**	**441.6**	−59.5	−13.5%
Administrative expenses (including depreciation)	163.9	166.5	−2.6	−1.6%
Total expenses	**163.9**	**166.3**	−2.4	−1.4%
Economic result without Treasury function	**218.2**	**275.3**	−57.1	−20.7%
Treasury function	−15.9			
Economic result	**202.3**	**275.3**	−73.0	−26.5%

Business development and profit performance in the Financing business division

Despite a fiercely competitive market environment and a reduced volume of new business, the Financing business division was able to keep its portfolio excluding savings bank financing at around the level of the previous year. An otherwise stable profit performance was greatly overshadowed by high specific provisions for loans in relation to ship financing granted before 2010. The economic result was thus down considerably year-on-year.

Business development in the Financing business division

The gross loan volume in the business division decreased by €1.9bn over the course of the year to €14.7bn. This was due in particular to falling demand in the savings bank financing segment, which nonetheless accounted for a volume of €7.3bn (previous year: €9.3bn), being 50% (previous year: 56%) of the total volume. The gross volume of lending to borrowers outside the *Sparkassen-Finanzgruppe* stood at €7.3bn (end of 2015: €7.3bn). Of this total, infrastructure loans accounted for €2.0bn (previous year: €2.0bn), while transport and export loans accounted for €5.3bn (previous year: €5.3bn), including ship financing of €1.6bn and aircraft financing of €3.0bn. The volume placed externally stood at €0.2bn, noticeably below the previous year's figure.

The high net allocations to provisions for loan losses in the ship financing segment are predominantly attributable to lower demand, reduced charter rates and surplus capacity. According to the DSGV master scale, at the year-end the average rating for the loan portfolio rose by one notch to 5, corresponding to BBB– on S&P's rating scale.

Profit performance in the Financing business division

As a result of the extensive provisions for loan losses in the ship financing segment, the economic result of the Financing business division was significantly in negative territory, at €–172.5m (previous year: €–19.1m). Net interest income was down moderately year-on-year, while commission income was slightly up, driven by new business.

The increase in administrative expenses to €30.4m (previous year: €26.5m) was primarily attributable to higher project expenses, which resulted in part from cross-divisional projects.

Profit performance Financing business division *(Fig. 12)*

€m	2016	2015	Change	
Net interest income	67.2	71.6	−4.4	−6.1%
Provisions for loan losses	−199.3	−63.1	−136.2	−215.8%
Net commission income	11.9	9.6	2.3	24.0%
Net financial income	−13.0	−11.0	−2.0	−18.2%
Other operating income	0.4	0.3	0.1	33.3%
Total income	**−132.8**	**7.4**	−140.2	(< −300%)
Administrative expenses (including depreciation)	30.4	26.5	3.9	14.7%
Total expenses	**30.4**	**26.5**	3.9	14.7%
Economic result without Treasury function	**−163.2**	−19.1	−144.1	(< −300%)
Treasury function	−9.3			
Economic result	**−172.5**	**−19.1**	−153.4	(< −300%)

Business development and profit performance in non-core business

Financing included within non-core business was transferred to the Financing business division as at 1 January 2016. The portfolio thus essentially consists of legacy business with securitised and structured products. The gross loan volume decreased over the course of the year from €1.1bn to €0.8bn. The rating for the net loan volume improved from 5 to 3 on the DSGV master scale. The strategy of winding down the portfolio will be maintained for the remaining credit substitute business.

The division's economic result decreased significantly year-on-year from €31.3m to €18.2m. The main reasons for this were a moderately positive valuation result together with a substantial portfolio reduction. As expected, net interest income therefore fell. Expenses amounted to just €0.7m (previous year: €2.8m).

Profit performance non-core business *(Fig. 13)*

€m	2016	2015	Change	
Net interest income	5.5	12.3	−6.8	−55.3%
Provisions for loan losses	0.0	1.3	−1.3	n/a
Net commission income	0.0	−0.2	0.2	n/a
Net financial income	13.4	20.7	−7.3	−35.3%
Other operating income	0.0	0.0	0.0	n/a
Total income	**18.9**	**34.1**	−15.2	−44.6%
Administrative expenses (including depreciation)	0.7	2.8	−2.1	−75.0%
Total expenses	**0.7**	**2.8**	−2.1	−75.0%
Economic result without Treasury function	**18.2**	**31.3**	−13.1	−41.9%
Treasury function	–			
Economic result	**18.2**	**31.3**	−13.1	−41.9%

Financial position and assets and liabilities of the Deka Group

Financial management principles and objectives

DekaBank is a key liquidity provider for the savings banks. In order to perform this function in an economically viable manner, it follows an integrated approach to the active and efficient management of liquidity reserves across the Group, through its Treasury corporate centre.

DekaBank holds a large volume of highly liquid assets of central bank quality. It can thus generate larger amounts through the repo market at any time. Its strong ratings also enable ready access, at competitive terms, to the money and capital markets.

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

Refinancing is carried out in a diversified manner using conventional national and international money market and capital market instruments. This includes the issuance of public sector and mortgage *Pfandbriefe*, short-term bearer bonds based on the Commercial Paper (CP) Programme, and medium to long-term bearer bonds based on the Debt Issuance Programme, as well as the two issuance programmes for structured issues and certificates (EPIHS I and EPIHS II). DekaBank also uses the repo and lending markets, call money and time deposits to raise and invest liquidity. Refinancing activities are supplemented by active market-making for own issues.

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

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

Financial position, capital structure, assets and liabilities

The Deka Group's balance sheet total amounted to €86.0bn as at the 2016 year-end and thus fell by around 20% compared with the previous year (€108.0bn), primarily as a result of the expiry of some securities.

The amount due from banks and customers decreased during the reporting period by a total of €6.1bn to €43.5bn and equated to around half of total assets. This movement resulted predominantly from the decline in money market financing from reverse repo transactions as well as from the expiry of money market transactions. Financial assets recognised at fair value through profit or loss fell by around €16bn, mainly due to expiries and reductions in commercial paper, and thus amounted to €34.9bn. They corresponded to around 40% of total assets as at the reporting date.

On the liabilities side, amounts due to banks and customers decreased by a total of €12.8bn to €40.8bn and thus accounted for around 47% of total assets. This movement resulted mainly from the decline in money market refinancing. Securitised liabilities also reduced significantly during the reporting year as a result of the decline in money market refinancing through commercial paper, falling by €8.8bn to €11.1bn. Financial liabilities measured at fair value remained virtually unchanged at €26.5bn. At the 2016 year-end, balance sheet equity was up year-on-year, amounting to €5.1bn (previous year: €4.9bn).

Balance sheet changes Deka Group *(Fig. 14)*

€m	31 Dec 2016	31 Dec 2015	Change	
Balance sheet total	**85,955**	**107,981**	−22,026	−20.4%
Selected items on the assets side				
Due from banks and customers	43,495	49,602	−6,107	−12.3%
Financial assets at fair value	34,903	50,908	−16,005	−31.4%
Financial investments	2,969	2,944	25	0.8%
Selected items on the liabilities side				
Due to banks and customers	40,782	53,546	−12,764	−23.8%
Securitised liabilities	11,076	19,922	−8,846	−44.4%
Financial liabilities at fair value	26,519	27,115	−596	−2.2%

Changes in regulatory capital (own funds)

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

The change in the Common Equity Tier 1 capital ratio (fully loaded) is discussed as part of the overall statement on the business trend and the Group's position. The corresponding total capital ratio stood at 22.2% at year-end (end of 2015: 16.7%).

The leverage ratio determined in accordance with the delegated regulation of 17 January 2015, i.e. the ratio of Common Equity Tier 1 capital to the balance sheet total, adjusted in line with regulatory requirements, amounted to 5.1% (fully loaded) at 31 December 2016, compared with 4.0% at the end of 2015, and to 5.2% (end of 2015: 4.2%) including the transitional provisions (phase in).

Regulatory capital Deka Group *(Fig. 15)*

	31 Dec 2016		**31 Dec 2015**	
€m	**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 capital	3,978	4,216	3,866	4,213
Additional Common Equity Tier 1 capital	474	348	474	292
Tier 1 capital	**4,451**	**4,564**	**4,339**	**4,505**
Tier 2 capital	838	801	855	814
Own funds	**5,289**	**5,366**	**5,194**	**5,319**
Credit risk	15,038	15,038	15,391	15,391
CVA risk	1,411	1,411	1,727	1,727
Market risk	4,478	4,478	11,884	11,884
Operational risk	2,887	2,887	2,185	2,185
Risk-weighted assets (total risk exposure amount)	**23,813**	**23,813**	**31,188**	**31,188**
%				
Common Equity Tier 1 capital ratio	**16.7**	**17.7**	**12.4**	**13.5**
Tier 1 capital ratio	**18.7**	**19.2**	**13.9**	**14.4**
Total capital ratio	**22.2**	**22.5**	**16.7**	**17.1**

Liquidity and refinancing

The liquidity management requirements set out under the Minimum Requirements for Risk Management (*Mindestanforderungen an das Risikomanagement* – MaRisk) were implemented in full during the reporting year. The regulatory requirements of the German Liquidity Regulation (*Liquiditätsverordnung*) were likewise exceeded at all times during the reporting period. The liquidity coverage ratio (LCR) was 124.4% as at the 2016 reporting date. Details about the Deka Group's liquidity position, including the liquidity coverage ratio, can be found in the risk report.

In terms of its refinancing, DekaBank has a broad investor base, including both retail and institutional investors in Germany.

Furthermore, in the first quarter of 2016 an international benchmark bond with a volume of €1bn and a term of two years was successfully placed on the capital market. Together with targeted private placements via the debt issuance programme (DIP), this enabled refinancing activities to be further diversified internationally.

Human resources report

The total number of employees rose during the reporting year to 4,556 (end of 2015: 4,277). A significant part of this growth was attributable to S Broker, whose 150 employees were included in the Securities business division for the first time as at mid-2016. It was also driven by the expansion in capacity of Savings Banks Sales & Marketing, in part for the implementation of the multi-channel strategy, as well as moderate increases to the staff of the Securities and Real Estate business divisions. In contrast, the number of employees in the Capital Markets business division fell slightly. The number of employees is determined by counting the number of employment contracts (temporary and permanent) in existence at the reporting date, including inactive employees, trainees and interns.

The number of employees relevant to the income statement increased by 7.2% compared with the end of 2015 to 3,990.0 (end of 2015: 3,722.1). This includes 138.9 employees resulting from the takeover of S Broker. Without this acquisition, the increase would have been 3.5%. The number includes part-time employees actively involved in work processes in the Deka Group, calculated as full-time equivalents.

At the year-end, 81.3% of the staff employed were in full-time posts, exactly the same proportion as in the previous year. The average age of active employees (excluding apprentices and inactive staff members) was 43.3 years (previous year: 42.8 years).

Key areas of HR activity involved supporting the adaptation of structures, processes, roles and duties within the Deka Group in connection with the transformation programme and also the new digitalisation strategy. This also included the reassignment of responsibilities and modified forms of cross-divisional collaboration.

Forecast and opportunities report

Forecast report

Forward-looking statements

The Deka Group plans its future business development on the basis of assumptions that seem most probable from a current perspective. However, plans and statements about growth during 2017 are subject to uncertainties.

Expected macroeconomic trends

DekaBank anticipates a moderate acceleration of global macroeconomic growth to 3.4%. Only minor growth in industrialised countries will be contrasted by markedly increasing momentum in emerging markets, driven in particular by economic recovery in Central and Eastern Europe as well as Latin America, combined with stable high growth rates in Asia.

In industrialised countries, growth in the eurozone will be robust, while in the USA the increase will be greater. The latter is driven in particular by a favourable investment and consumption climate, most recently accompanied by satisfactory growth in the level of employment. However, the expansive fiscal policy promised in the legislative term of US President Trump is only likely to stimulate the economy to a slight extent, all the more so because a parliamentary majority for debt-financed tax cuts and infrastructure projects is by no means certain. In addition, the strengthened US dollar could slow down the export economy. Following the Brexit vote, the European Union is confronted with the need to reinvent itself, at least partially. This includes finding answers to questions on how to get to grips with the situation in European public finances and how to simplify the political decision-making process. Despite continued unresolved problems, the foundation for growth broadened, with peripheral states also recently exhibiting growth. In this regard, private consumption remains the key factor underpinning economic development in the eurozone.

Oil prices have an influence on inflation, which should pick up temporarily. According to forecasts, however, core inflation in the eurozone will increase only marginally and remain below the ECB's expectations. The latter should therefore maintain its ultra-expansive policy and continue its securities purchases at the same level for some months beyond March 2017, and only then begin to scale back the programme. The monetary policy of central banks will thus continue to have a significant influence on economic developments during 2017 as well.

Expected trends in the capital markets

The bond markets have experienced a shift in sentiment. With rising inflation expectations and diminishing fears of deflation, there is a growing consensus that central banks should not take expansionary action once again. As a result of this, towards the end of 2016 yields on long-term bonds rose marginally in the eurozone and in fact rose significantly the USA. This trend should continue at least tentatively in 2017. In addition, the 2017 election year, presumed to be accompanied by an active fiscal policy, along with financial markets that will continue to be susceptible to fluctuation, is likely to lead to a steeply rising yield curve in the coming months. The expected reduction in the ECB's bond purchase programme should also contribute to upward pressure on yields. Spreads in the eurozone's periphery remain adversely affected by the greater overall political uncertainty. Prospects for the corporate bond market remain largely positive.

Favourable fundamental developments in the equities market will continue. The business climate, expected to remain stable with further increases in corporate earnings, along with the positive effects of a gradually normalising interest rate environment, could have a positive impact on share prices, despite the ongoing risk factors. Moderate valuations on the German equity markets in comparison to other regions may reinforce the potential for recovery.

Expected trends in the property markets

The outlook for rental markets in Europe remains subdued. Above-average rent increases are expected in 2017 for Madrid and Barcelona in particular, but also for Berlin and Munich. Due to continued uncertainty in the United Kingdom, however, declines in rent are expected in London along with further yield increases. Downward pressure on initial returns in Europe will once again continue in 2017. However, yield compression should no longer be as high as in the previous year.

In the USA, rental growth is likely to slow in most markets during 2017. An average gain of at least 1% is nonetheless expected across all locations, trending downwards in subsequent years. The sharpest growth in rents in 2017 will be in Dallas and Los Angeles, as well as in the New York sub-segment Downtown Manhattan. The weakest development is likely to be seen in San Francisco and Houston. Higher yields on a broad scale are not expected before 2018, as interest rates are only being raised very cautiously. In Asia, Singapore should once again experience a significant fall in rent in 2017, while rental growth should continue in Tokyo. In Sydney and Melbourne, strong growth in rent is once again expected in 2017, whereas Brisbane and Perth will continue to record slight declines in rent. Returns in Australian markets are likely to fall slightly.

Overall assessment of the economic trends

Overall, the Deka Group expects no significant changes to economic conditions from the 2016 financial year. The surplus liquidity on the money market driven by ECB policy, and the low interest rates and yields, which are expected to remain low going forward, will continue to create some relatively challenging conditions for the

Deka Group. Whether the interest rate environment will cause investors to shift towards securities investments will depend, among things, on the influence of political factors. The uncertainty resulting from political developments and conflicts could mask positive fundamental data. Moreover, regulatory interventions could unsettle investors and lead to fund outflows.

Expected business development and profit performance

In 2017, the Deka Group will continue ongoing strategic initiatives to further develop the *Wertpapierhaus*. These include the implementation of the multi-channel strategy in order to support the forward-looking positioning of the savings banks in online securities business, differentiated approaches to various retail customer segments and strengthening institutional business, including outside the *Sparkassen-Finanzgruppe*.

The economic result for 2017 is expected to be around the level of the figure for 2016. The forecast economic result will ensure that DekaBank remains able to distribute profits and to make the reinvestments necessary for the purposes of capital management.

The Securities business division is seeking to increase its net sales performance in 2017. As well as good net sales performance with retail customers, the strengthening of institutional business aside from the savings banks is also expected to contribute to this. There should also be a positive impact from ongoing development of the products offered, so as to take account of the various needs of customers.

Market risks for the Securities business division consist firstly of the continued low interest rate level. Although in principle this makes property investments more attractive than deposit products, in the medium-term it could lead to declining growth rates, falling corporate earnings and corresponding drops in prices. There is also a risk of net outflows from bond funds. On the other hand, a marked rise in interest rates due to a potentially more expansive fiscal policy could noticeably influence the valuation levels in funds. Moreover, regulatory changes could unsettle investors and have a negative impact on wealth creation through funds.

The Real Estate business division continues to manage sales of open-ended mutual property funds for retail customers via sales quotas, which are geared towards developments in the transaction markets and proactive liquidity management of the funds. Planned net sales are at approximately the same level as the strong 2016 performance. In institutional business, net sales performance should also be boosted by the new club deal range and an additional property fund of funds. Internationalisation of the business continues to move ahead, for instance through the expansion of business in North America. There are also plans to increase volumes in property financing, which in 2017 will be assigned to the Financing business division but which will continue to act as a close strategic partner of property-related asset management. In property financing business, further erosion to lending criteria and/or to credit margins are considered to be key risks to earnings.

As in the Securities business division, regulatory interventions, which could cause lasting damage to the appeal of fund investments, pose a risk to future performance. The high price level reached for core properties increases the risk of devaluation, especially given the political uncertainty.

The Capital Markets business division will continue to further develop its product offering and range of solutions during 2017. This will include a focus on structured products, bonds and issuance business as well as on extending infrastructure links with savings banks and institutional customers.

Potential regulatory interventions could once again influence customer business in 2017. Particular market risks lie in the future development of market rates and of the competitive environment in commission-based business.

The Financing business division plans to grow business in segments aside from savings bank financing and to increase the volume of new business arranged where profitability is adequate. At the same time, the legacy portfolio will continue to be reduced while safeguarding assets.

Potential risks could include a further worsening of the fiercely competitive market environment or a further deterioration in ship charter rates.

Expected financial and risk position

In 2017, the Deka Group is anticipating a continued sound financial position and slightly higher total assets, likely to be driven primarily by the planned expansion in loan volume. Balance sheet management is already geared towards ensuring compliance with the leverage ratio, although compliance is not expected to be legally binding in Europe for the first time until 2021.

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

The Common Equity Tier 1 capital ratio (fully loaded) is expected to decrease, partly due to the expansion in loan volume. However, a strong Common Equity Tier 1 capital ratio of over 13% is still envisaged for 2017. The tightened expected regulatory requirements will place additional strain on the capital ratios, such that it will be essential to compensate proactively for the negative effects by reinvesting annual net profits.

According to current planning, utilisation of risk capacity will increase slightly but remain at a non-critical level in 2017. The likely higher financing volumes, the anticipated volume development in asset management and the increasing market volatility also expected may lead to a noticeable increase in the level of risk. This will be offset by increasing risk capacity, resulting in particular from the reinvestment of profits.

Development of the key performance indicators of the Deka Group *(Fig. 16)*

		31 Dec 2016	Forecast 2017
Economic result	€m	415.1	At around the previous year's level
Total customer assets	€bn	256.8	Slight increase
Net sales	€bn	16.9	Slight increase
Common Equity Tier 1 capital ratio	%	16.7	Over 13%
Utilisation of total risk-bearing capacity	%	35.2	Slight increase

Opportunities report

Opportunity management

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

- Opportunities arising from changes in circumstances result from market developments that are more favourable than expected. These include regulatory changes or changing investment trends on the part of customers.
- Corporate strategy opportunities are mainly linked to the ongoing transformation of the Deka Group into the *Wertpapierhaus*. The associated positive effects may be greater or could occur sooner than anticipated in the forecast report.
- Other opportunities lie in greater than anticipated process improvements or exceptional successes in cost management. These are likewise to be seen in the context of the ongoing development of the Deka Group as the *Wertpapierhaus*.

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.

For example, a more expansive fiscal policy in the USA – which would also pose risks – could lead to the central banks gradually abandoning their low interest-rate policy and oversupply of liquidity in the markets. The resulting increase in yields at the long end, associated with a steepening yield curve, could improve the conditions for investing own funds and managing liquidity. In addition, in such a scenario economic growth – driven by the USA – could turn out to be stronger than the level assumed in baseline planning.

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 would be further boosted by the valuation of pension obligations. This scenario is seen as rather unlikely, however.

Opportunities on the market could also be generated by an even stronger shift towards funds for wealth creation. However, the Deka Group anticipates that this process will continue to take place only slowly, as the securities culture in Germany is not yet strongly developed. Nonetheless, if the popularity of funds and certificates should increase, due not least to effective multi-channel marketing, this would have a beneficial impact on net sales performance and total customer assets.

Strategic and other opportunities arise in connection with the systematic development of the business model of the Deka Group as the *Wertpapierhaus* for the savings banks. The resulting effects are already incorporated in the forecasts for 2017. They will only have a positive impact on the Deka Group's business and profit situation if their implementation is accomplished even more quickly, or if the effects are greater than expected.

Risk report

Risk policy and strategy

The basic principles underlying the Deka Group's risk policy and strategy remain largely unchanged from the previous year. To achieve its objectives, the Deka Group consciously incurs risk in line with strategic requirements in order to generate sustainable added value for its shareholders. The Deka Group utilises the advantages arising from the interconnection of its business activities in the areas of investment funds and real estate, and in its lending and capital market businesses, to successfully implement its vision of the *Wertpapierhaus*, while avoiding any conflicts of interest. Implementation of the business model, with customers as the key focus of business activities, may give rise not only to counterparty, market price and operational risks but, more particularly, to business and reputational risks as well as liquidity risks. 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 Deka Group's focus remains on added-value generating operations that are in demand from both the savings banks and their end customers where the risks are strictly limited and for which adequate expertise is available. As part of the long-term business strategy defined by the Board of Management and the risk strategy consistent with it, risk positions are entered into primarily in connection with customer transactions, when they can be hedged on the market.

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.

The framework for business and risk management is provided by the general risk appetite concept (Risk Appetite Framework – RAF), which forms the main basis for determining the adequacy of internal capital and liquidity and is an integral part of the Deka Group's strategy system. Starting with the desired risk profile and available risk capacity, appropriate risk limits are derived from these and regularly reviewed.

Risk appetite is determined taking into account the desired risk profile and available risk capacity. It represents the overall aggregated risk from individual risk types that the Deka Group is prepared to enter into, within the available economic capital resources, in order to meet its strategic objectives. In the Internal Capital Adequacy Assessment Process (ICAAP), risk appetite is defined as the allocated risk capital. Particular consideration is given here to risk concentrations to which the Deka Group consciously exposes itself in connection with its business model. The main examples of this are the Group's focus on the domestic public sector, on German savings banks and their customers, and on selected capital market participants and central counterparties, which is partly due to its function as a securities and collateral platform. In addition to risks that have an impact on the income statement, risk appetite is also defined in qualitative terms for non-financial risks, including reputational risk and compliance risk.

With regard to the Internal Liquidity Adequacy Assessment Process (ILAAP), the objective is to guarantee solvency at all times, even under hypothetical stress conditions – risk capacity being determined by the excess liquidity under non-stressed conditions in the funding matrix for normal business operations. The Deka Group has defined its risk appetite such that, under an extreme hypothetical stress scenario of a simultaneous idiosyncratic and market-wide stress event, an indefinite survival horizon exists. Compliance with this risk appetite is ensured firstly by illustrating the impact of the simultaneous occurrence of institute-specific and market-wide stress events in a "combined stress scenario" funding matrix. As a second step, limits on liquidity balances across all relevant maturities that allow only positive balances ensure that the Group is solvent at all times with an indefinite survival horizon. An early warning threshold set at €1.5bn represents a first escalation level in this context.

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 divisional and sales strategies, are reviewed on a regular basis. The reviews consider whether they 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. The use of business division-specific targets for risk and profit ensures that the business strategy is implemented appropriately in the business divisions.

The individual risk strategies developed for significant types of risk identified during the risk inventory are derived from the Deka Group's risk strategy as well as the strategies of the business divisions. These risk strategies provide specific details regarding risk monitoring and management. They are also reviewed at least once a year, revised if necessary, approved by the Board of Management and discussed with the Administrative Board. In the course of this process, DekaBank takes into account both external and internal factors, the underlying assumptions of which are reviewed regularly and on an ad hoc basis as necessary.

The targets set under the business strategy and risk strategies are quantified each year as part of the medium-term business planning process. This process involves formulating an integrated profit, capital and risk plan for each of the next three budget years, and also takes any potential adverse developments into account.

The Group performs a risk inventory on an annual basis and at other times as required, in order to determine which risks could have a significant negative impact on its financial position, including capital resources, earnings or liquidity. An efficiently structured risk inventory ensures that an overview of the overall risk profile of the Deka Group is available at all times. Taking into account risk concentrations, DekaBank has established limits (risk tolerances) for all risks classified as significant during the risk inventory and has implemented rigorous risk management.

Organisation of risk management and control

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-increasing importance is attributed to an effective and properly functioning risk management system across all organisational units, which has no control gaps, conflicts of interest or redundancy and takes into consideration the risk strategy of DekaBank. This also promotes clear-cut governance.

The ‘Three Lines of Defence’ model practised by DekaBank is designed to ensure compliance with and verification of the risk framework stipulated by the risk strategy. The operational business units responsible for positions are – as the first line of defence – responsible for managing, assessing and quantifying the risks identified in any business conducted. This also includes transactions to minimise total risk at Group level in day-to-day operations. The organisational units representing the second line of defence, such as Risk Control, operate independently of commercial units to ensure that compliance with the risk strategy is monitored and that the valuation and risk methods employed are adequate. DekaBank’s Internal Audit function constitutes the third line of defence.

Board of Management and Administrative Board

The Board of Management is responsible for establishing, enhancing and monitoring the effectiveness of the risk management system. Within the risk management organisation the Board of Management makes decisions on the Deka Group’s strategy and defines the amount of overall risk permitted at Group level. It also allocates economic capital to the respective types of risk and the business divisions, including the Treasury corporate centre and non-core business. In particular, it also decides the limits for the individual risk types at the Group level.

The Administrative Board, together with the relevant committees it has established – the Audit and Risk Committee and the Credit Committee – is responsible for monitoring the Deka Group’s risk management system. Prior to every meeting of the Administrative Board, the Audit and Risk Committee meets to discuss in detail the matters impacting the Group’s risk situation and risk management as well as its profit and financial position. In addition, it reviews the Group’s strategic direction with the Board of Management. During these meetings, the Committee also receives reports on the findings of audits carried out by Internal Audit and the external auditors. The Credit Committee, which also meets in advance of the Administrative Board meeting, focuses on matters specific to counterparty risk in terms of the structure and development of the loan portfolio, discusses and decides on borrower-related limit structures and examines the development of loan loss provisions. It thus serves as the body that approves loans and discusses the business policy of the Deka Group’s lending business with the Board of Management.

Management committees, business divisions and corporate centres

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

With due regard to the risk appetite, the Management Committee Risk (*Managementkomitee Risiko* – MKR) meets once a month and advises the Board of Management on matters regarding significant risks at Group level and on addressing, analysing and assessing issues that could have a significant influence on the total risk profile or profitability of the Group. The voting members of the MKR include the Head of the Risk Control department and the heads of the Risk Control, Credit Risk Office, Finance, Risk Control Capital Market Funds, Internal Services – Real Estate & Credit, Internal Services – Security Funds and Capital Markets Business, Compliance and Legal corporate centres. The MKR is supported in this function by sub-committees, which each have individual core duties.

The Management Committee Assets/Liabilities (*Managementkomitee Aktiv-Passiv* – MKAP), which meets every two weeks, primarily drafts resolutions on matters relating to the management of interest rates, currency, liquidity and refinancing and to the capital and balance sheet structure within the guidelines set by the Board of Management. In addition, it plays a role in limiting market price risk by making recommendations on the allocation of high-level limits for the Capital Markets business division and the Treasury corporate centre. The members of the MKAP include departmental heads responsible for Treasury, Risk Control and Finance as well as the head of Capital Markets business and the heads of the Treasury, Risk Control and Finance corporate centres. The heads of the Macro Research and Corporate Development departments participate as permanent, non-voting guests.

The Treasury corporate centre makes decisions in accordance with the limits recommended by the MKAP and set by the Board of Management, managing market price risks in the banking book as well as liquidity and refinancing for the Deka Group.

Organisational structure of risk management in the Deka Group *(Fig. 17)*

		Market price risk	Liquidity risk	Counterparty risk	Operational risk	Business risk	Property risk/ property fund risk	Shareholding risk
Administrative Board Audit- and Risk Committee	- Overview of current risk situation/risk management system - Discussion of strategic direction with Board of Management	●	●	●	●	●	●	●
Credit Committee	- Loan approval committee - Discussion of the business direction in lending business with Board of Management			●				
Board of Management	- Determines strategic direction - Responsible for Group-wide risk management system - Sets return on equity target and allocation of risk capital to risk types and business divisions - Sets overall limit and approves limits within risk types	●	●	●	●	●	●	●
Management Committee Risk (MKR)	- Supports the Board of Management in matters relating to significant existing and forecasted risks - Supports the Board of Management with the evaluation of issues that have a significant effect on the overall risk profile - Preparation of draft resolutions for the Board of Management - Supplemented by various sub-committees	●	●	●	●	●	●	●
Stress Testing Committee	- Assesses and appraises stress scenarios and stress test results - Specifies stress testing processes - Reports and makes recommendations for action to the Board of Management	●	●	●	●	●	●	●
Models Commitee	- Assessment of 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			●				
Monitoring Committee	- Monitors and manages non-performing and troubled loans or those on the watch list			●				
Rating Committee	- Enhances and maintains internal rating procedures			●				
Risk Provisioning Comitee	- Planning, management and monitoring of loan loss provisions - Monitoring and management of restructuring and liquidation cases			●				
Risk Talk	- Supporting 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 and counterparty-specific risk	●	●	●	●	●		
Management Committee Assets/Liabilities (*Managementkomitee 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 - Proposes, introduces and monitors risk-mitigating measures in liquidity emergencies - Preparation of draft resolutions for the Board of Management	●	●	●	●	●	●	●
Securities business division	- Conducts transactions in line with strategic guidelines	●	●	●		●	●	●
	- Identifies, measures and manages operational risks on a decentralised basis				●			
Real Estate business division	- Conducts transactions in line with strategic guidelines		●	●		●	●	●
	- Identifies, measures and manages operational risks on a decentralised basis				●			
Capital Markets business division	- Conducts transactions in line with strategic guidelines	●	●	●		●		
	- Makes decisions within the guidelines established by the MKAP and sets limits within the business division	●	●					
	- Identifies, measures and manages operational risks on a decentralised basis				●			

		Market price risk	Liquidity risk	Counterparty risk	Operational risk	Business risk	Property risk/ property fund risk	Shareholding risk
Financing business division	- Conducts transactions in line with strategic guidelines		●	●		●		●
	- Identifies, measures and manages operational risks on a decentralised basis				●			
Treasury (Corporate Centre)	- Conducts transactions in line with strategic guidelines and existing risk limits	●	●	●				
	- Makes decisions within the guidelines proposed by the MKAP and established by the Board of Management and sets limits within the Corporate Centre - Manages market price risks in the banking book, manages the liquidity and refinancing of the Deka Group	●	●					
	- Identifies, measures and manages operational risks on a decentralised basis				●			
Risk Controlling (Corporate Centre)	- Development/update system to quantify, analyse and monitor risks - Reports to Board of Management and Administrative Board - Determines/monitors risk-bearing capacity - Monitors approved limits	●	●	●	●	●	●	●
Credit Risk Office (Corporate Centre)	- Administrative office for early risk identification - Market independent second recommendation - Reviews and/or approves ratings - Checks certain collateral - Monitors management of non-performing and troubled loans			●				
	- Identifies, measures and manages operational risks on a decentralised basis				●			
Shareholdings (Corporate Centre Strategy & Shareholdings)	- Manages equity investment portfolio							●
	- Identifies, measures and manages operational risks on a decentralised basis				●			
Compliance (Corporate Centre)	- Regulatory function of Compliance Officer as set out in the German Banking Act (KWG), German Securities Trading Act (WpHG) and German Investment Code (KAGB), along with the function of Money Laundering Officer pursuant to the German Money Laundering Act (GwG); Central Office in line with the requirements of the KWG - Fulfils function of Responsible Officer for QIs under FATCA				●			
Information Security Management (Corporate Centre IT)	- Ensures IT security and is responsible for business continuity management				●			
Other Corporate Centres	- Identifies, measures and manages operational risks on a decentralised basis				●			
Internal Audit (Corporate Centre)	- Audits and evaluates all activities/processes (especially risk management system)	●	●	●	●	●	●	●

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

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

For 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 KWG, and represents the "Central Office" in line with the requirements of the German Banking Act. Furthermore, the Compliance corporate centre fulfils the roles of Group Money Laundering Officer, the "Responsible Officer" as required for Qualified Intermediaries (QIs) under the Foreign Account Tax Compliance Act (FATCA), and the Information Security Officer. Alongside the provision of training and advice, the corporate centre assesses controls and procedures implemented by the operational units in relevant areas to determine whether they are appropriate and effective. In this way, by addressing any issues with the respective responsible specialist units, it enables compliance risks to be minimised for the Deka Group.

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

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

Sub-committees of the Risk Management Committee

The Stress Testing Committee is responsible for determining the macroeconomic stress testing scenarios and processes to be performed across all risk types under Pillar II, and evaluating the economic results of the stress tests. In this way it supports the Board of Management in the overall assessment of the economic risk situation and in determining any necessary action to be taken.

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

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

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

Reporting

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

Risk concentrations in relation to individual counterparties (cluster risks) are reported on a monthly basis to the Board of Management and to the key risk committees. In addition, a detailed analysis of all individual counterparties classified as clusters and the associated segment concentrations in comparison to the 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 testing, which examines key indicators material to the risk appetite under alternative scenario conditions. In this respect, stress testing performs a crucial early warning function.

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

Further developments in risk management

The general risk appetite concept (Risk Appetite Framework), which forms the framework for the business and risk management of the Deka Group, was further reinforced during the reporting period and integrated in detail into the business strategy. The strengthening of individual elements of the Risk Appetite Framework, which was supported by the establishment of a separate risk strategy that has been split out from the business strategy and is more closely based on regulatory concepts, did not result in any significant impact on the results of the risk inventory or on risk and capital planning. The same applies to risk-bearing capacity (including the complementary stress testing) and capital allocation as general concepts of risk management and monitoring.

Implementation of the 'Principles for effective risk data aggregation and risk reporting' (BCBS 239) continued as planned during the reporting year and will continue to be a critical project during the 2017 financial year. Furthermore, the Overall Bank Risk & Reporting unit was involved in the implementation of the regulatory provisions regarding recovery and resolution planning. The fifth amendment to MaRisk, discussed throughout 2016 during a consultation process, contains, among other things, more detailed specifications on outsourcing and IT management as well as on the above-mentioned risk reporting in accordance with BCBS 239.

The changes currently planned as part of Basel IV regarding the credit risk standardised approach (CRSA) and the Internal Rating Based (IRB) approach are being closely monitored with regard to their potential economic impact. The same applies with regard to the Fundamental Review of the Trading Book (FRTB) and the intended abolition of the advanced measurement approach (AMA) for operational risks, which could potentially also have an impact on Pillar II of the Basel framework.

The regulatory recognition process concerning the further enhanced internal model for calculating (partial) capital charges for market risk positions was completed during the course of the year under review. The market risk model, which has already been used for some time for the purposes of internal economic management (ICAAP), can thus now also be used to determine risk-weighted assets (RWAs) for the capital and reserves required in accordance with the Capital Requirements Regulation (CRR). This relates to the regulatory capital charges for general interest rate and share price risks. Implementation of the changes took place in the fourth quarter. Applying the model leads to a significant reduction in the relevant tied regulatory capital charges for market price risks and consequently to a release of – otherwise tied – regulatory own funds. Consequently, the implementation of the market risk model for reporting risk-bearing capacity under the going concern approach has resulted in lower utilisation of available free risk coverage capital being recorded. The regulatory recognition of the model confirms the high standards of the Deka Group in market risk management.

For operational risks, in the first half of the year the revised AMA model was put into use for economic management (ICAAP) and – following a positive decision by the supervisory authorities in the third quarter – also for determining the regulatory capital charges in accordance with the Capital Requirements Regulation (CRR). The changes to the models subject to regulatory approval related in particular to the procedure for combining internal and external loss data and to the way in which the distribution of loss levels is determined. In the economic risk-bearing capacity assessment, the risk-augmenting effect of implementing the changes to the models was more than offset by the removal of the general surcharge applied for that purpose in the previous year, amounting to €100m. In comparison to the 2015 year-end, the net amount reported in the corresponding economic risk figures was thus lower overall. Conversely, with regard to the regulatory capital requirement, the revised AMA model resulted in an increase to the capital charge for operational risk.

The interplay between the model changes for regulatory capital charges in relation to market risk and operational risk led to an overall reduction in the Deka Group's risk-weighted assets (RWAs). Although these were not relevant for economic risk management, there was a positive impact on the utilisation of risk-bearing capacity under the going concern approach, which is applied as a supplementary test.

The organisation of risk management and control remained largely unchanged compared with the end of 2015. Some adjustments related to Group-wide operational liquidity management across all maturities, which was pooled in the Treasury corporate centre, while the management of any securities investments not used as liquidity reserves was transferred from the Treasury corporate centre to the Capital Markets business division. The loan portfolio from non-core business was transferred to the Financing business division and will continue to be reduced while safeguarding assets. The changes were followed up as appropriate, particularly in reporting. This did not result in any fundamental changes, particularly in the organisation of risk control. The integration of S Broker into the risk management and control system and into the consolidated risk scope of the Deka Group was successfully completed during the year under review. The impact on the risk situation of the overall Group was negligible.

In order to satisfy the general changing regulatory requirements in a targeted manner and in order to more effectively address the relevant regulatory and economic developments from a risk policy perspective, during the reporting period DekaBank enhanced the relevant committee structure. As part of this, the MKR was assigned various existing and new subcommittees (Risk Provisioning Committee, Models Committee).

Overall risk position of DekaBank

The risk position presented in the risk report is the Deka Group's overall risk position and is therefore in line with the definition which is also applied to the presentation of the Deka Group's expected business development and profit performance in the Group management report. This means that the report focuses on risks that are relevant from the point of view of the Group. Opportunities that might be used to counteract an increase in risk are presented separately in the opportunities report.

Risk definitions, concentrations and measurement

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

Market price risk

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

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

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

Share price risks are identified as risk factors via individual shares or indices 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 does not differentiate between the trading book and banking book; the same procedures are applied for all DekaBank portfolios, irrespective of the portfolio type. In addition, market price risks are calculated taking into account guarantees that the Deka Group has provided for individual investment funds and are subject to a corresponding economic capital allocation.

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 no longer able to fulfil its contractually-agreed obligations, or not able to fulfil them in a timely manner (default risk). Counterparty risk also includes country risk in the form of transfer risk, which results not from the business partner itself, but instead is due to its location abroad.

In principle, the Deka Group makes a distinction in counterparty risk between position risk, advance performance risk and potential future exposure (PFE) risk. Position risk comprises borrower and issuer risk, as well as replacement risk and open position risk. Borrower risk is the risk that outstanding loan payment obligations to the Deka Group are not paid or are not paid in a timely manner. Issuer risk is the analogous counterparty risk associated with securities. Replacement risk is the risk that if a business partner were to default, a replacement transaction would have to be conducted at less favourable market conditions. Open position risk (performance disruption) results if a delay occurs when a business partner performs a contractually agreed obligation. 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/lending transactions, synthetic lending transactions and other derivatives transactions.

Operational risk

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

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

Business risk

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

Reputational risk

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

Model risk

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

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

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

Liquidity risk

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

Insolvency risk describes the risk that the Deka Group cannot meet its current and future payment obligations in a timely manner because the Group's 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 with losses, due to inadequate market depth or because of market disruptions.

Further types of risk

The risk inventory process has identified other types of risk that currently, however, have only a minor influence on the Group's risk-bearing capacity.

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

Property risk describes the risk of a decline in the value of property held in the Deka Group's own portfolio.

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

In addition to considering risks that have an impact on the income statement and liquidity risks, non-financial risks are also relevant to the Deka Group. To the extent that it is either possible or meaningful to do so, these are taken into account through their allocation to business or operational risks as part of the risk-bearing capacity analysis. Furthermore, qualitative guidelines on risk tolerance have been defined for the non-financial risks identified as particularly relevant during the annual risk inventory.

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.

Business-division-specific risk profiles

The individual business divisions have unique risk profiles because they are a consolidation of specific types of business activities.

Securities business division

Because of its focus on active management of securities funds and on fund-linked investment solutions and services, this business division principally generates operational and business risks for the Deka Group. These may be exacerbated by reputational risks in connection with the "Deka" brand or other Deka Group brands. In addition, managed guarantee products create counterparty and market price risks for the Deka Group. S Broker, which is part of the Securities business division, was integrated into the Deka Group's risk management system. With its product-independent securities trading platform and low-volume deposit, securities and lending business, it did not have a material impact on the risk situation of the business division.

Real Estate business division

As with the Securities business division, active fund management creates operational and business risks in this business division. Alongside the funds business, DekaBank's property financing activities are also assigned to the Real Estate business division. Property lending leads to counterparty risk, although this lending usually involves individual loans with a different regional focus. As part of the enhancements made to the way business activities are structured and allocated, due to a clearer separation between banking business and asset management, from 2017 onwards property financing has been separated from the Real Estate business division and allocated to the Financing business division.

Capital Markets business division

In the Capital Markets business division, customer-driven business activities give rise to market, counterparty and issuer risks. The result primarily from currency, securities lending and securities repurchase transactions, from trades in financial instruments with financial institutions, savings banks, funds and companies, and in relation to the strategic investments of DekaBank. Market price risks in the context of the Capital Markets business division's liquidity investment activities, which involve strategic investment, primarily result in spread risks, and to a lesser extent interest risk. In addition, the division consciously exposes itself to risk concentrations, above all when supporting Deka funds and savings banks with the provision of liquidity. 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. Furthermore, there are risk concentrations 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 in the segments it focuses on (essentially financing of savings banks, infrastructure, aircraft and ships, as well as export finance backed by export credit agencies (ECAs)) create corresponding focal points, primarily in counterparty risks. In accordance with the business model, this also leads to regional risk concentrations in Germany, as well as to sector-based risk concentrations in relation to the financial sector.

Treasury

The Treasury corporate centre's various functions, especially management of the liquidity reserve, give rise to counterparty risk, particularly in relation to Germany and the public sector. As a result, this leads to market price risks, primarily in the form of credit spread risks, and liquidity risks.

Non-core business

Lending and products in non-core business lead primarily to counterparty and market price risks. Going forward, the Group aims to decrease its risk position here even further by continuing to reduce volumes while preserving assets.

Overall concepts of risk measurement

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

Risk inventory

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

Risk and capital planning

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

Risk-bearing capacity and capital allocation

To safeguard its risk-bearing capacity, the Deka Group primarily follows a liquidity-oriented approach (liquidation approach), in which the focus is particularly on ensuring the protection of creditors at all times in the hypothetical event of liquidation. This requires that even extremely rare risk situations are included in the analysis.

As part of this liquidation approach, the Deka Group's total risk includes at a minimum all significant types of risk with an impact on the income statement, and is determined by adding these together. Diversification effects between individual types of risk are not taken into account as part of this process. The total risk of the Deka Group is measured as an economic capital amount that is highly likely to be sufficient to cover the losses from all significant risk positions at any time within one year.

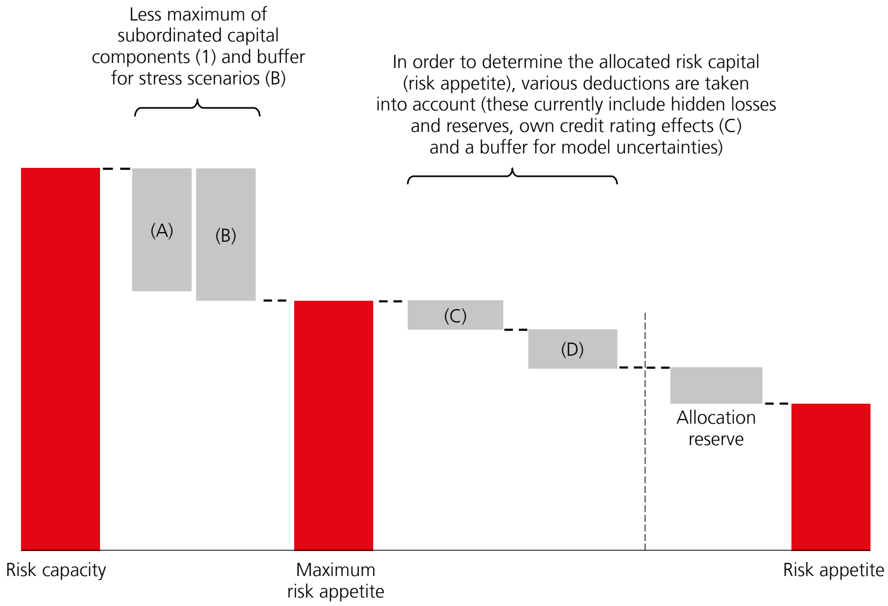
DekaBank uses the value-at-risk approach (VaR) in order to quantify individual risks on a uniform basis and to aggregate them as an indicator for overall risk. The calculation of VaR for a one-year holding period is made for internal management purposes with a confidence level of 99.9%. This level is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

The total risk of the Deka Group that is derived from the individual types of risk is compared to the Group's risk cover potential available to offset losses. The liquidation approach takes into account all available components of capital that do not negatively impact creditors in the event of a hypothetical liquidation. In the liquidation approach, the total available risk cover potential, i.e. the risk capacity, consists mainly of equity capital in accordance with IFRS and earnings components and positions with a hybrid capital nature (subordinated capital), adjusted using amounts to correct for specific capital components, such as intangible assets or risks arising from pension obligations. This risk cover potential is available – in the sense of a formal total risk limit – to safeguard risk-bearing capacity.

In order to reflect extreme market developments and turbulence in the context of risk-bearing capacity and to guarantee this at all times, a capital buffer is explicitly reserved for stress scenarios, based on the risk capacity. This corresponds at a minimum to the level of subordinated capital components, including Additional Tier 1 capital. The maximum risk appetite, which is the result of risk capacity less the capital buffer for stress scenarios, represents the primary control parameter for the allocation of risk capital.

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

Risk capacity and risk appetite *(Fig. 18)*



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

In addition, the Deka Group regularly determines its risk-bearing capacity based on the going concern approach as a supplementary procedure to assess risk-bearing capacity. Here the primary focus is on the extent to which and how often (time horizon) the Deka Group can incur risks without endangering its ongoing existence, while simultaneously complying with the relevant regulatory capital requirements. This means that in principle risks can only be incurred to the extent that capital components are not already committed due to compliance with previously defined secondary conditions. Secondary conditions that are taken into account include both a Common Equity Tier 1 capital ratio of 11.0% as an advance warning threshold and a Common Equity Tier 1 capital ratio of 9.5% as a threshold value. In order to take account of the new capital requirements under the Capital Requirements Directive (CRD IV), at the start of the year the ratio set as the advance warning threshold for regulatory tied capital was raised by 0.5%. In contrast to the liquidation approach, the risks in the going concern approach are considered based on the assumed continuation and intention to hold investments to maturity and with regard to the time horizon deemed relevant to risk management. DekaBank evaluates risks using the going concern approach with a confidence level of 95.0% and a holding period of one year, which corresponds to a time horizon of once in 20 years.

The results of the risk-bearing capacity analysis under the two approaches and the allocation as calculated using the liquidation approach (the primary approach for management purposes) and its utilisation are determined on a monthly basis and reported to the Board of Management. The Audit and Risk Committee and the Administrative Board are informed on a quarterly basis.

Stress tests and scenario analyses

Macroeconomic stress tests across all risk types and scenario analyses based on specific risk types are performed based on the liquidation approach for all significant types of risk, in order to assess the impact of extreme market developments on risk capacity. These tests help identify areas for action at an early stage as soon as crisis situations start to appear.

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

When needed, the scenarios are supplemented with relevant ad hoc analyses. The effects of these stress scenarios performed across all risk types are determined for all relevant profit and risk indicators and then compared with the resulting scenario-specific risk cover potential.

The results of the stress tests performed for all risk types are determined quarterly, assessed by the Stress Testing Committee and reported to the Board of Management, the Audit and Risk Committee, and the Administrative Board.

The regular annual reviews of the scenarios performed across all risk types were carried out in the third quarter of 2016. This resulted in an update to the economic description of hypothetical and idiosyncratic stress scenarios and partial adjustments to parameterisation. In particular, a hypothetical scenario concerning the euro debt crisis was updated in light of current politico-economic developments in the eurozone.

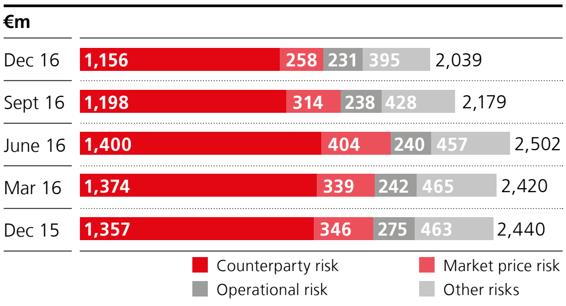
Overall risk position in the 2016 financial year

During the reporting year, the model, employed by the Deka Group for economic risk management continued to reflect the corporate and market situation in an appropriate and timely manner. For example, the negative interest rate environment was swiftly incorporated into the valuation models for financial products. The impact of various market developments, for instance in connection with Brexit, was anticipated in differentiated forms and accompanied by proactive control measures.

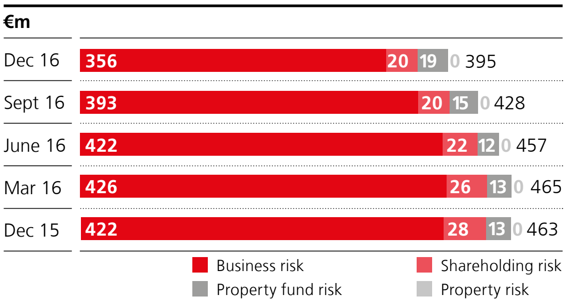
Utilisation of the moderately reduced risk capacity declined markedly during the year under review. In this regard, all significant individual risk types relevant to ICAAP recorded a decrease compared to the previous year-end, with counterparty and market price risks declining particularly strongly. The economic risk situation thus remained at a non-critical level overall.

Under the liquidation approach, which is used for management purposes, the Deka Group's overall risk (value-at-risk or VaR, with a confidence level of 99.9% and a holding period of one year) stood at €2,039m as at the end of 2016 (end of 2015: €2,440m). The reduction in counterparty risk was first and foremost attributable to position reductions in strategic investments and to the overall drop in migration risks. This more than compensated for the risk-augmenting effect caused by individual downgrades to ratings and the integration of S Broker positions. The reduction in bond positions in both the Capital Markets business division and the Treasury corporate centre had a risk-reducing impact on market price risks. An increase in the Securities business division due to the integration of S Broker positions as well as rising risks from guarantees were not material. With regard to operational risks, the increasing effect on reported risk from implementing the revised quantification model was more than offset by the elimination of the buffer previously adopted for this purpose, so that VaR diminished overall compared with the 2015 reporting date. Business risk backed by economic capital also was significantly below the level of the 2015 year-end. Alongside decreased volatility in the securities sector, this was primarily attributable to the reduced contribution made by the general risk surcharge, due especially to reduced counterparty and market price risks in the capital markets business. Overall, the risk level of the remaining types of risk included in the analysis of risk-bearing capacity was still below the low level of the 2015 year-end.

Change in Group risk over the course of the year *(Fig. 19)*



Change in Group risk over the course of the year – other risks *(Fig. 20)*



Total risk, which reduced by 16.4%, was offset by a slight decline in risk capacity to €5,785m (end of 2015: €5,868m). The increase in retained earnings from the partial reinvestment of 2015 net income was offset in particular by actuarial losses from pension provisions, an increased deduction for deferred taxes and a decline in the adjustment items relating to own credit rating effects. Utilisation of risk capacity was 35.2% at the reporting date, noticeably below the level at the end of 2015 (41.6%). It remained at a non-critical level throughout the whole of the year under review.

The maximum risk appetite, which does not incorporate subordinated capital (including AT1 capital and perpetuals), fell by €207m in comparison to the 2015 year-end (€4,492m) to €4,285m. The major drivers for this were an increase in the capital buffer for stress scenarios, which was approved during planning, as well as the variables that determine risk capacity. Due to the disproportionate reduction in total risk, utilisation nonetheless decreased to 47.6% (end of 2015: 54.3%).

The stress scenarios that are run on a regular basis across all risk types also confirmed that risk capacity was assured in all scenarios at the end of the year. The forecast utilisation of risk capacity as at the relevant reporting dates in 2016 stood below 100% for all scenarios. In one scenario, concerning the failure of a systemically important bank, the utilisation was continuously above the early warning threshold of 80%. In addition, for the updated scenario concerning the euro debt crisis, the utilisation was above 80% at the end of the third and fourth quarters.

Under the going concern approach, which is examined as a supplementary test, utilisation of available risk cover potential also significantly reduced when compared with the end of 2015. With a Common Equity Tier 1 capital ratio of 11.0%, utilisation of the remaining risk cover potential (with a confidence level of 95.0% and a holding period of one year) was 30.8% at the 2016 reporting date (end of 2015: 51.8%), and therefore remained at a non-critical level. The lower deductions for regulatory tied capital, due in particular to the first-time application of the new quantification model for market price risks, resulted in an increase in the available risk cover potential. This contrasted with a drop in total risk, primarily as a result of declining counterparty and market price risks, which was also caused by reducing positions.

Market price risks

Strategic framework and responsibilities

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

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

The MKR makes 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 the corresponding resolutions. In its capacity as a sub-committee, Risk Talk supports the MKR and the Board of Management in relation to the Capital Markets business division's operational processes for managing and monitoring market risk. To do so, it conducts in-depth analysis on a range of issues relating to market and counterparty risks and makes recommendations and binding decisions on matters that influence the Capital Market business division's risk profile. The Treasury corporate centre and Capital Markets business division are responsible for carrying out transactions and maintaining positions. In terms of market price risks, they are solely responsible for the implementation of strategic guidelines and operational management within the prescribed risk limits.

Focus, structure and degree of risk associated with business activities

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

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

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

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

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

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

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

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

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 allocated to the Securities business division.

Management and limit-setting

Market price risk is monitored on a daily basis. The basis for this monitoring is a system of operational limits that is consistent with the Group’s overall risk-bearing capacity. This system defines limits in line with the business model for the various portfolio levels and risk categories. In addition, limits are set based on operating metrics such as sensitivities. Stop-loss limits are another management tool that the Group has established to limit losses. In the event that a stop-loss is exceeded, the MKR will immediately take steps towards mitigation.

Value-at-Risk (VaR)

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

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

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

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

Sensitivity-based management metrics

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

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

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

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

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

Scenario considerations and stress analyses

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

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

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

Backtesting of VaR risk ratios and validation

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

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

Current risk situation

Market price risk at Group level (measured using value-at-risk with a confidence level of 99.9% and a holding period of one year) fell significantly at the end of the 2016 financial year to €258m (end of 2015: €346m). This was due first and foremost to reduced bond positions in both the Capital Markets business division and the Treasury corporate centre, which lowered credit spread risks. In non-core business, risk continued to fall as a result of the steps taken to wind down this portfolio while safeguarding assets. By contrast, an increase in market price risk in the Securities business division due to the incorporation of S Broker together with a market-induced increase to risk in relation to guarantee products were less pronounced.

At the end of 2016, market price risk for the Deka Group excluding guarantee risks (measured by value-at-risk with a confidence level of 99.0% and a holding period of ten days) totalled €29.5m (end of 2015: €45.6m). Utilisation of the operating management limit for Treasury and capital markets business decreased to 42.3% (end of 2015: 44.3%) and therefore remained at a non-critical level.

Value-at-Risk – Deka Group excluding guarantees [1)]
(Confidence level 99%, holding period ten days) *(Fig. 21)*

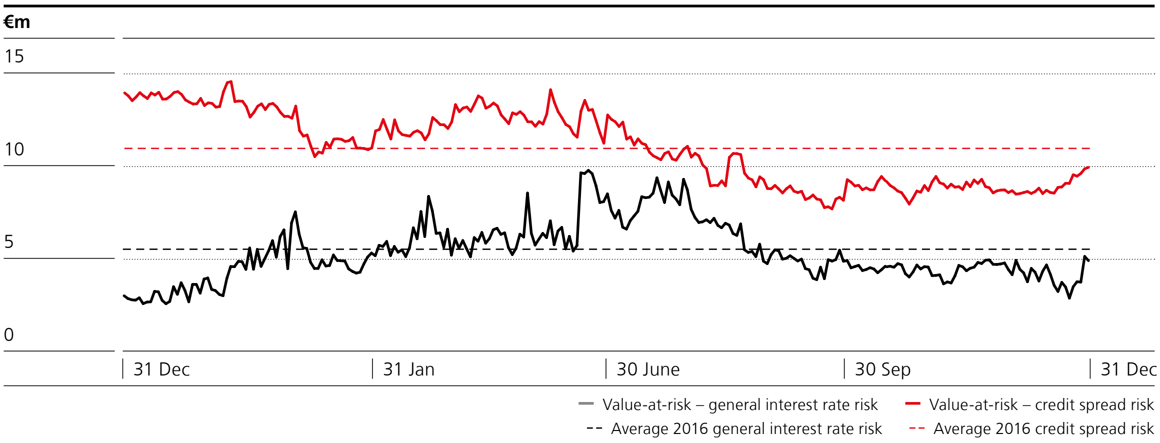
€m	31 Dec 2016				31 Dec 2015				
Category	Treasury and Capital Markets business division	S Broker	Non-core business	Deka Group excluding guarantees	Treasury and Capital Markets business division	S Broker	Non-core business	Deka Group excluding guarantees	Change in risk
Interest rate risk	28.1	2.3	5.1	29.2	44.0	0.0	7.4	45.5	–35.8%
Interest rate – general	13.7	2.6	1.5	14.8	8.5	0.0	2.5	7.9	87.3%
Spread	29.1	1.2	4.7	30.7	42.5	0.0	6.8	43.8	–29.9%
Share price risk	3.3	2.1	0.0	3.2	1.2	0.0	0.0	1.2	166.7%
Currency risk	4.2	0.1	1.1	3.7	2.1	0.0	1.4	0.9	311.1%
Total risk	**28.4**	**3.4**	**5.1**	**29.5**	**44.3**	**0.0**	**7.4**	**45.6**	–35.3%

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

At the end of the reporting year, the VaR for credit spread risk reduced to €30.7m (end of 2015: €43.8m). The primary cause of the risk reduction was a substantial planned reduction in bond positions, in both the Treasury corporate centre and the Capital Markets business division. A significant proportion of the credit spread risk was attributable to the Strategic Investments unit in capital markets business as well as to Treasury's management of the liquidity reserve. As in the previous year, bonds issued by German federal states, run-off institutions and development banks played a significant role here. In non-core business credit spread risk declined moderately as a result of the continued reduction in positions.

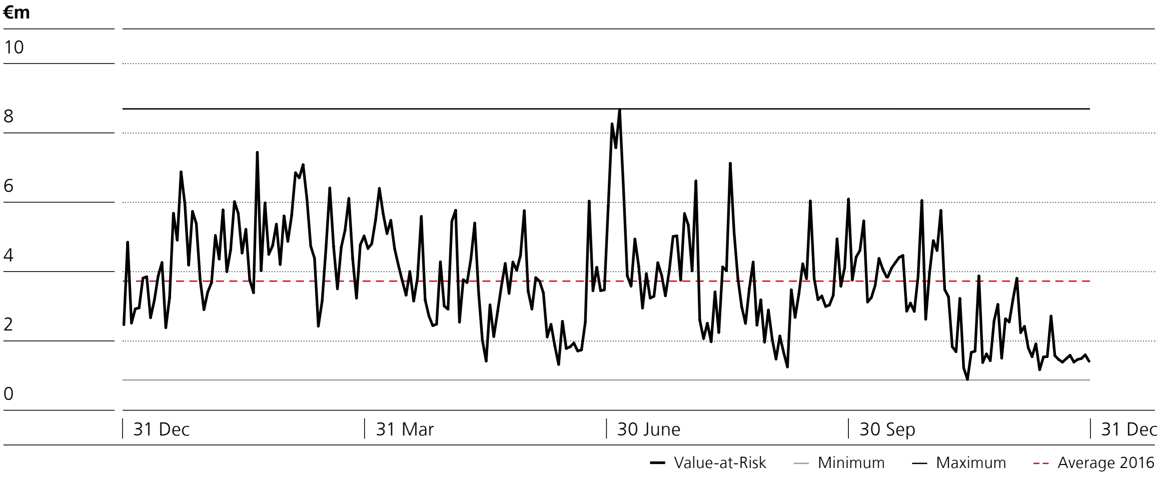
The VaR for general interest rate risk increased compared to the 2015 year-end position (€7.9m) to €14.8m. The increase in general interest rate risk was driven by the Capital Markets business division and by Treasury's market risk position. One significant factor leading to the rise was the modified positioning with regard to the maturity profile. The risk increase was also attributable to the first-time inclusion of S Broker.

Value-at-risk – General interest rate risk and credit spread risk in the Capital Markets trading book over the course of 2016 *(Fig. 22)*



Share price risk increased over the course of the year from €1.2m to €3.2m, but as such remained of relatively minor significance. Share price risk in the Capital Markets business division trading book totalled €1.5m (2015: €2.5m).

Value-at-risk – Share price risk in the Capital Markets trading book over the course of 2016 *(Fig. 23)*



Currency risk, which resulted mostly from positions in British pounds and US dollars, had a VaR of €3.7m at the end of 2016 (end of 2015: €0.9m) and therefore remained immaterial. Currency risk in the Capital Markets business division trading book increased to €0.6m (end of 2015: €0.4m).

Value-at-risk – Currency risk in the Capital Markets trading book over the course of 2016 *(Fig. 24)*

Counterparty risk

Strategic framework and responsibilities

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

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

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

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

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

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

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

Focus, structure and degree of risk associated with business activities

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

In the Capital Markets business division, counterparty and issuer risks arise from currency, securities lending, securities repurchase and derivatives transactions entered into, and from trades in financial instruments. They also arise in relation to any of Deka Group's securities investments that do not serve as a liquidity reserve to meet regulatory requirements, which the Capital Markets business division took over from the Treasury corporate centre at the start of 2016. When supporting investment funds and savings banks with the provision and management of liquidity, the division consciously exposes itself to risk concentrations in relation to savings banks, selected capital market participants and central counterparties. These are managed both at individual counterparty level and via appropriately diversified securities portfolios.

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

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

In the Property Financing subdivision loans that are granted are secured by a mortgage over the property that generates the cash flow. Financing for open-ended property funds is an exception to this, if it is possible to base this on the credit quality of fund assets via the assignment of claims for expense reimbursement. This collateral limits the risk of losses that can result from payment problems associated with repayments made using the cash flows generated by the property. Given the overall limited financing volume and the broad diversification of the portfolio, there are no risk concentrations.

In the Securities business division, counterparty risks for the Deka Group arise predominantly from contractually binding commitments made in connection with guaranteed fund and pension products and from the proprietary investments of DekaBank and S Broker AG & Co. AG.

Management and limit-setting

When managing its counterparty risk, the Deka Group makes a distinction between the overall analysis at the total portfolio level and operational management using a multi-level system of limits that are based on volumes.

Portfolio model

The starting point for the strategic analysis of counterparty risk is the allocation of capital, which is derived from the calculation of the Deka Group's risk-bearing capacity. It is the foundation for the limitation and monthly monitoring of counterparty risk at total portfolio level and at the level of individual business divisions, including the Treasury corporate centre and the non-core business. The allocation is quantified based on the Deka Group's credit portfolio model, which is used to determine the portfolio's risk of loss in the form of a credit value-at-risk (CVaR) metric for a one-year holding period and at a confidence level of 99.9% (using the liquidation approach), 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 premiums are reviewed on a monthly basis to provide a foundation for overall management decisions.

Operating management limits

The Deka Group utilises a system of fixed, complementary volume-based limits for daily operational management purposes. In light of the concentration on specific groups of counterparties, regions and sectors that results from the Group's business model, the limitation of both unsecured volume (net limitation) and the internal framework (gross limitation) plays a central role in this process. The amount of the limits is primarily oriented towards the internal rating of the corresponding counterparties. To limit concentration, additional targets are defined for the maximum permissible limit per individual counterparty. Particularly important counterparties from a business policy perspective (clusters) are also subject to additional reporting above a specific amount. Further minimum requirements for the quality of the collateral received apply to especially 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

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

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

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

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

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

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

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

A key output of the portfolio model is that it determines a CVaR with a holding period of one year and a confidence level of 95.0% (using the going concern approach) or 99.9% (using the liquidation approach). Risk concentrations are taken into account by considering the dependency structure of risk factors. In particular, the modelling approach selected considers dependencies between crisis events. The expected shortfall (ES) is also calculated to supplement the CVaR.

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

Management and monitoring of counterparty risks

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

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

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

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

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

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

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

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

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

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

Performance of stress tests

In addition to the macroeconomic stress tests performed across all risk types, additional sensitivity tests are conducted specifically for counterparty risk. Examples of scenarios include a rating downgrade for public authorities, federal state banks and savings banks, as well as an increase in loss ratios for, or a failure to take into account specific collateral. The results of the stress tests are determined quarterly and reported to the Stress Testing Committee, the Board of Management, the Audit and Risk 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 and troubled loans or those on the watch list. This includes specifying early warning indicators and criteria to allocate exposures to different monitoring levels.

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

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

Current risk situation

The counterparty risk determined using credit value at risk, or CVaR (confidence level of 99.9% and a holding period of one year), reduced substantially at the end of the 2016 financial year to €1,156m (end of 2015: €1,357m). As in previous years, utilisation levels remain moderate. The reduction in loan portfolios and bond positions, particularly in Strategic Investments, and the drop in migration risks made a major contribution to the decline in CVaR. In addition, the materialisation of risks through recognising specific loan loss provisions for existing ship financing loans had the effect of reducing risk. This more than compensated for the risk-augmenting effects that resulted, among other things, from the integration of S Broker and selective rating downgrades. The risk position of the cluster portfolio is assessed using a redistribution based on expected shortfall and this also resulted in a noticeable decline compared to the previous year, with the number of counterparty clusters also falling considerably. The reorganisation of the treasury portfolio involved a transfer of the proportionate CVaR to the Capital Markets business division. Transfers also took place from non-core business to the Financing business division due to reclassification of loans.

At €124.3bn at the 2016 year-end, gross loan volume was below the prior-year value (€142.3bn). In the financial institutions risk segment, which accounted for almost half of the gross volume, the decrease was due especially to reductions in commercial paper and a fall in reverse repo volumes in the Capital Markets business division, including with central counterparties. The reduced loan volume with savings banks reflects their declining demand for liquidity. In the domestic public sector segment, positions in bonds and commercial paper issued by public authorities were cut back in particular. Gross loan volume in the funds risk segment also decreased, which was caused by lower repo/lending volumes. Overall, gross loan volume in the remaining risk segments fell slightly.

The ship portfolio accounted for 1.3% of gross loan volume (end of 2015: 1.2%). Due to the lack of a recovery in charter rates in certain segments, this sub-portfolio carries a greater risk of default, which was taken into account through a corresponding increase in the loan loss provision. As a result of the difficult market climate, the shipping loan portfolio is being closely followed and monitored on an ongoing basis.

Gross loan volume *(Fig. 25)*

€m	31 Dec 2016	31 Dec 2015
Financial institutions	57,619	67,673
Public sector Germany	12,364	15,112
Corporates	11,812	11,823
Savings banks	10,511	14,585
Funds (transactions and units)	13,567	14,500
Property risk	7,364	7,122
Transport and export finance	5,295	5,293
Energy and utility infrastructure	1,342	1,327
Other	4,463	4,910
Total	**124,336**	**142,344**

In view of the high proportion of collateralised business, net loan volume stood at €49.9bn (end of 2015: €59.3bn), more than €74bn lower than gross loan volume. The disproportionate decline compared to gross loan volume was essentially due to the fact that the reduction in collateralised reverse repo business had no impact when viewed on a net basis. The same applied in relation to the decline in covered bonds and *Pfandbriefe* in the domestic public sector risk segment. At the same time, the above-mentioned changes in the gross loan volume also had a corresponding impact on net loan volume.

In non-core business, both gross and net loan volume stood at only €0.8bn (end of 2015: €1.1bn). Hence, over the last few years, more than 90% of the original loan volume has been reduced in accordance with the credit risk strategy, while safeguarding assets.

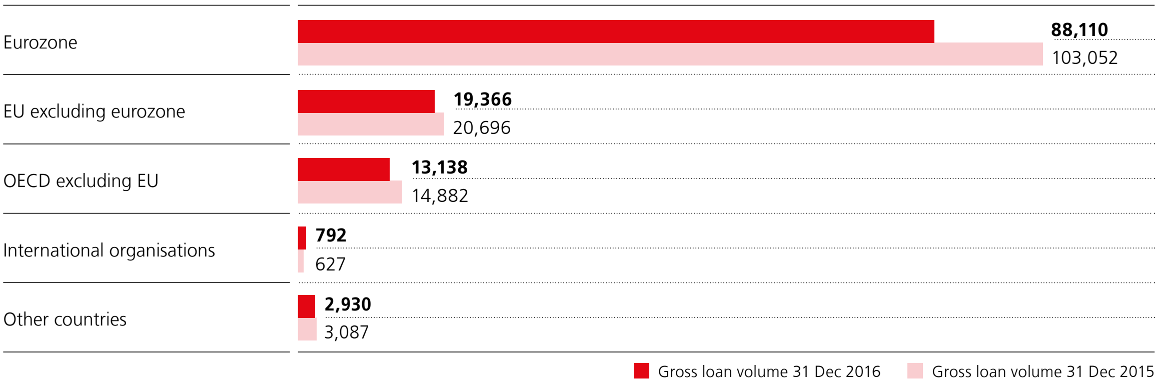
Net loan volume *(Fig. 26)*

€m	31 Dec 2016	31 Dec 2015
Financial institutions	16,259	21,979
Public sector Germany	3,646	2,948
Corporates	6,342	6,162
Savings banks	9,894	14,180
Funds (transactions and units)	7,630	7,348
Property risk	1,258	1,541
Transport and export finance	938	672
Energy and utility infrastructure	1,327	1,298
Other	2,637	3,143
Total	**49,931**	**59,272**

The credit portfolio remained heavily focused on the eurozone during the reporting period, although its share of gross loan volume fell to 70.9% (end of 2015: 72.4%). Key reasons for this included the reduction in bond positions, declining demand for liquidity at savings banks and the fall in reverse repo volumes with central counterparties. In the course of this, volumes attributable to Germany also fell by €10.3bn to €54.5bn. The gross loan volume attributable to the second and third largest countries in the eurozone – Luxembourg and France – was 11.4% and 5.3% respectively of the total gross loan volume. The gross loan volume attributable to Luxembourg fell by €1.1bn to €14.2bn, due in particular to fewer lending transactions with own investment funds. As a result of both reductions in commercial paper and reduced repo volumes, the gross loan volume attributable to France fell by €3.6bn to €6.6bn. Volumes in the other eurozone countries also fell. In EU countries outside the eurozone gross loan volume decreased primarily due to a reduction in commercial paper with British counterparties. The gross loan volume attributable to the UK thus also fell by 6.9% to €17.6bn. In OECD countries outside the European Union, gross loan volume fell, predominantly because of reduced repo/lending volumes with Swiss counterparties.

Gross loan volume by region *(Fig. 27)*

€m



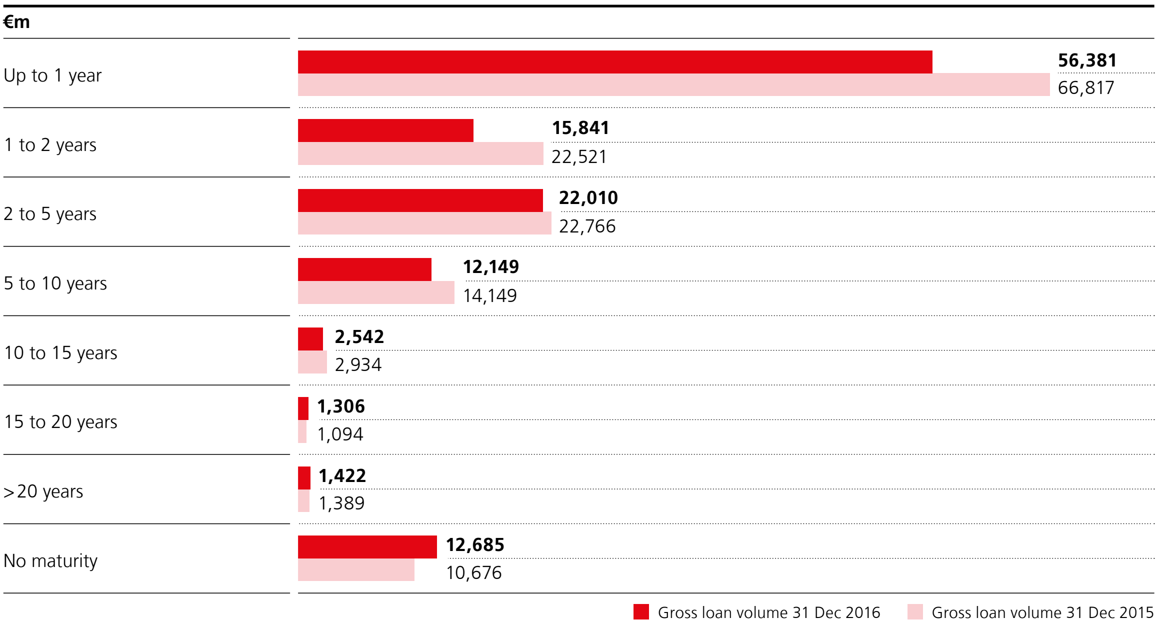
The gross loan volume relating to borrowers in Italy, Spain, Ireland and Portugal increased marginally compared with the figure at the end of 2015 (€3.8bn). As at the reporting date, counterparties from the aforementioned countries accounted for €4.1bn or a 3.3% share (end of 2015: 2.7%) of overall gross loan volume. There continued to be no direct loan volume relating to borrowers classified under Greek country risk. Of the gross loan volume attributable to counterparties in Russia totalling €0.3bn (end of 2015: €0.5bn), around 81% is secured by ECA guarantees issued by the Federal Republic of Germany. DekaBank continues to have no exposure in Ukraine.

Gross loan volume by PIIGS countries and sector as at 31 December 2016 *(Fig. 28)*

€m	Greece	Ireland	Spain	Italy	Portugal	Total
Central government	0	20	328	254	17	618
Public sector	0	0	0	0	0	0
Banks	0	0	1,515	509	0	2,024
Corporates	0	505	294	476	0	1,276
Other	0	0	74	70	0	144
Total	**0**	**525**	**2,212**	**1,308**	**17**	**4,062**
Change vs. previous year						
Central government	0	–12	186	–107	0	67
Public sector	0	0	0	0	0	0
Banks	0	0	346	–272	0	74
Corporates	0	59	43	71	0	173
Other	0	0	–9	–17	0	–26
Total	**0**	**47**	**565**	**–325**	**0**	**288**

The gross loan volume remained focused primarily on the short-term segment. During the reporting year, the proportion of transactions with a residual maturity of less than one year decreased from 46.9% to 45.3%. Among other things, this reflects the Deka Group's continued central function as a provider of short-term liquidity to the *Sparkassen-Finanzgruppe*. By contrast, the share of maturities of ten years or more accounted for 4.2% (previous year: 3.8%). The average legal residual term of the gross loan volume amounted to 2.8 years, thus showing a minor increase compared to the 2015 year-end of 0.2 years.

Gross loan volume by remaining maturity *(Fig. 29)*



The level of risk concentration in the loan portfolio reduced substantially during the reporting year and, in view also of the creditworthiness of major counterparties, continues to be deemed reasonable and appropriate. As at 31 December 2016, 19.6% (end of 2015: 29.2%) of 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). This was influenced by the reduction in the number of counterparty clusters due to various limit reductions, as well as by the classification of one counterparty as a central counterparty, with this counterparty being classified as an exception. 33.8% of the cluster portfolio related to counterparties from the domestic public sector, savings banks and other alliance partners.

In addition to transactions with central counterparties, high-volume loans comprise mainly collateralised transactions such as repo/lending transactions, most of which are collateralised with securities, derivative transactions concluded under netting agreements, and covered securities such as *Pfandbriefe* or securities either issued or backed by the Federal Republic of Germany. Due to the extensive level of collateralisation, only 12.6% of net loan volume related to counterparty clusters.

As per the 2015 reporting date, the average rating for the gross loan volume at the end of 2016 stood at 3 on the DSGV master scale. The probability of default remained virtually unchanged, amounting to 16 bps as at the end of 2016. Viewed from a net perspective, the rating also remained unchanged at 3, with an average probability of default of 17 bps (end of 2015: 18 bps). The Bank therefore still achieved its target rating of investment grade for the portfolio as a whole. The further slight downgrade in the rating versus the level as at 30 June 2016 (gross: rating of 2, net: rating of 3) was mainly attributable to the reduction in commercial paper positions, a decline in repo transactions with counterparties with good ratings, and lower demand for liquidity from savings banks with top ratings. Isolated instances of deteriorating creditworthiness in ship financing transactions were an additional factor. Overall this resulted in a slight backlog of negative changes with regard to rating migrations. At the end of 2016 around 82.1% of net loan volume remained in the same grouping (determined by rating class) as at the end of 2015.

Net loan volume by risk segment and rating *(Fig. 30)*

€m	Average PD in bps	Average rating 31 Dec 2016	31 Dec 2016	Average PD in bps	Average rating 31 Dec 2015	31 Dec 2015
Financial institutions	20	3	16,259	18	3	21,979
Savings banks	1	AAA	9,894	1	AAA	14,180
Corporates	14	2	6,342	19	3	6,162
Public sector international	5	A+	1,887	6	A+	2,284
Public sector Germany	1	AAA	3,646	1	AAA	2,948
Public infrastructure	39	5	568	35	5	628
Transport and export finance	284	10	938	612	12	672
Energy and utility infrastructure	71	6	1,327	61	6	1,298
Property risk	18	3	1,258	16	3	1,541
Retail portfolio	5	A+	141	6	A+	157
Funds (transaction and units)	14	2	7,630	15	3	7,348
Equity investments	26	4	41	18	3	75
Total	**17**	**3**	**49,931**	**18**	**3**	**59,272**

Operational risk

Strategic framework and responsibilities

The strategy determined by the Deka Group to deal with operational risks (OR strategy) is the basis for the way in which the Group is organised to manage operational risks. It defines the framework for the Group-wide structure 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 identify, measure and manage them. This approach is based on coordinated collaboration between the units set out below.

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

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

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

Cross-divisional functions

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

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

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

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

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

Methods used

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

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

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

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

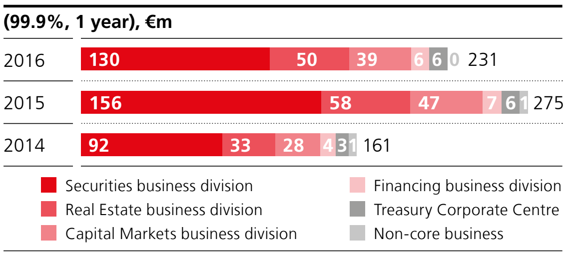
OR loss events are recorded in a structured manner with the help of a central loss database starting from a minimum gross limit of €5,000 at the Deka Group level. As well as providing a description of the loss, the database includes documentation that covers the causes of the loss and suitable measures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

To determine the economic capital requirement for operational risks, the Deka Group uses an advanced measurement approach (AMA) that has been approved by regulatory authorities. This approach quantifies the Bank's operational risk based on a loss distribution approach, using methods set out in the approach itself and external loss data to supplement the data on internal losses. The value-at-risk figures thus identified are incorporated into both the regulatory capital and reserves requirement and the internal risk-bearing capacity analysis of the Deka Group. At the 2015 reporting date a general surcharge was still applied in the risk-bearing capacity analysis in order to pre-empt the risk-augmenting effects of the planned model changes. However, this was no longer required at the end of 2016 since supervisory approval for the revised model had been obtained in the interim period, allowing the model to be applied as normal.

Current risk situation

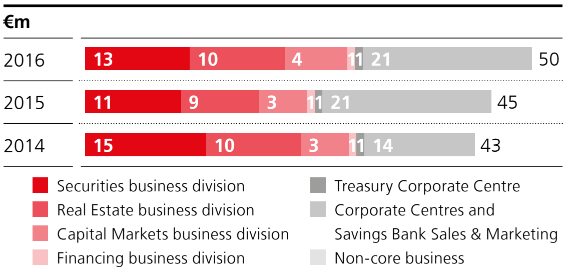
The VaR for operational risk (confidence level of 99.9%, holding period of one year) decreased from €275m at year-end 2015 to €231m. As expected, the first-time application of model changes resulting from previous validation reviews had the effect of increasing risk. However this was more than offset by the removal of the general surcharge applied for that purpose in the previous year amounting to €100m. Furthermore, the update to scenario assessments and analyses as part of the self-assessment process, as well as to external loss data, also made a contribution to the risk reduction. The utilisation of allocated risk capital remained at a non-critical level throughout the whole of the period under review.

Value-at-Risk *(Fig. 31)*



The OR loss potential identified in the Group-wide risk inventory recorded a moderate increase to €50m (end of 2015: €45m). The increase is partly attributable to the first-time incorporation of risk assessments for S Broker. It also reflects an awareness of increased risk, for example relating to the timely implementation of individual regulatory requirements, or risks related to the change in IT infrastructure provider during 2016 that have not yet been fully mitigated. 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 *(Fig. 32)*



Compliance

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

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

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

Furthermore, the Compliance department meets the requirements of MaRisk (German Minimum Requirements for Risk Management) regarding Compliance functions. In carrying out its duties, the Compliance unit advises and trains the specialist units on an ongoing basis. It carries out risk-based reviews regarding adherence to statutory and regulatory requirements related to compliance and to the overall compliance guidelines.

The Compliance unit also covers the requirements under Section 25a of the KWG and under MaRisk (AT 4.4.2 regarding the Compliance Function), as well as those arising under the QI regime (the "Responsible Officer" role). It is responsible for identifying and limiting compliance risks, and advising the Board of Management and the specialist units, particularly in connection with the implementation of effective processes and procedures to ensure adherence to significant legal regulations and requirements related to compliance. As part of this process, the Compliance unit carries out a risk analysis and assesses the procedures and controls established by the business units to determine whether they are appropriate and effective.

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

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

Accounting-related internal control and risk management system

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

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

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

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

The accounting recognition of business transactions is governed centrally by a Group accounting policy. This policy describes key accounting requirements and documents the standard accounting processes that apply throughout the Group. This ensures, amongst other things, that the same business transaction is accounted for uniformly in different Deka Group units and companies in compliance with the applicable accounting standards. Specific work instructions are used to implement Group policy at operational level in individual specialist departments. These instructions also describe the control mechanisms to be followed. Guidelines and authorisation procedures have been developed for the central systems that generate accounting information as part of the preparation of financial statements. Compliance with these guidelines and concepts is regularly monitored by Internal Audit.

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

Liquidity risks

Strategic framework and responsibilities

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

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

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

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

Liquidity positions are managed centrally by the Treasury unit. As part of asset-liability management, structural liquidity is managed and monitored through funding matrices and via the charging of transfer pricing for funds. At the same time, the Treasury unit ensures that an adequate liquidity reserve of central-bank-eligible collateral is available. In addition, it is in charge of managing the Deka Group's liquidity reserve as well as controlling the level of liquidity ratios. Since the beginning of the reporting year, operational liquidity management across all maturities has been pooled in the Treasury corporate centre. This also covers money market transactions on the interbank market with savings banks, the Bundesbank or the ECB, with companies and with insurance companies and funds.

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

Management and limit-setting

Funding matrices

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

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

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

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

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

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

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

Liquidity risk is also mitigated using the requirements of the German Liquidity Regulation (Section 11 of the KWG). The liquidity ratio pursuant to the Liquidity Regulation is calculated as the ratio of the Deka Group's short-term cash inflows to its outflows, with a maturity of up to one month. The ratio is monitored on a daily basis.

The liquidity coverage ratio (LCR), a regulatory indicator that represents the ratio of highly liquid assets to net liquidity cash flows under stress conditions, is also incorporated into the management of liquidity risk and actively managed. The use of a funds transfer pricing system for the source-specific allocation of liquidity and collateral costs also allows liquidity to be proactively managed and efficiently allocated.

Reporting

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

Current risk situation

The Deka Group continued to have ample liquidity throughout the entire reporting year. 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 is also the case for the alternative stress scenarios examined and under the going concern approach. The moderate decline in the liquidity balance in the earlier maturity bands reflects the reduction in money market financing, which was offset by an increase in longer-term issues. There were no overruns of limits or early warning thresholds at any time during the year under review.

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

As at 31 December 2016, 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 €4.6bn (end of 2015: €9.6bn). In the maturity band of up to one month, the liquidity surplus totalled €11.2bn (end of 2015: €9.3bn), and in the medium to long-term range (three months) it was €18.2bn (end of 2015: €14.1bn).

Combined stress scenario funding matrix of Deka Group as at 31 December 2016 *(Fig. 33)*

€m	D1	>D1–1M	>1M–12M	>12M–5Y	>5Y–20Y	>20Y
Liquidity potential (accumulated)	16,197	19,350	1,675	–216	–23	20
Net cash flows from derivatives (accumulated)[1]	–177	–18	264	–2,330	–3,563	–3,570
Net cash flows from other products (accumulated)	–11,651	–8,136	17,740	18,057	10,491	3,138
Liquidity balance (accumulated)	**4,369**	**11,195**	**19,680**	**15,511**	**6,905**	**–412**
For information purposes:						
Net cash flows from derivatives by legal maturity (accumulated)[1]	–177	–101	–917	–3,282	–4,142	–3,570
Net cash flows from other products by legal maturity (accumulated)	–9,644	–15,670	–13,064	2,160	3,051	2,521
Net cash flows by legal maturity (accumulated)	**–9,821**	**–15,771**	**–13,981**	**–1,122**	**–1,092**	**–1,049**

[1] including lending substitute transactions and issued CLNs

As at 31 December 2016 around 56.2% of the Group's total refinancing related to repo transactions, money on call and time deposits, and other money market products. The high proportion represented by money market products – although the proportion did decline during the reporting year – is a result of the large volume of short-term business. The remaining 43.8% of refinancing related to capital market products, primarily with longer maturity profiles, with bearer bonds making up by far the largest proportion of this. In terms of its maturity structure, the refinancing profile for lending business was balanced. 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 a share of 21.2% of money market refinancing, while funds represented 25.8%. This means that the Group's refinancing continued to be broadly diversified by investor group.

The regulatory requirements of the German Liquidity Regulation (*Liquiditätsverordnung* – LiqV) were met throughout the whole year under review. The average liquidity ratio at Bank level, determined on a daily basis, was 1.75 during the reporting period (previous year: 1.85). It fluctuated within a range of 1.62 to 1.89. The ratio stood at 1.73 at 31 December 2016 (end of 2015: 1.65). The LCR at Group level was 124.4% at the end of 2016, and was thus significantly above the 70.0% minimum level stipulated for 2016. Since 1 January 2017 the new regulatory minimum level of 80.0% has applied.

Business risk

The business risk strategy decided 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. The Deka Group uses a range of complementary tools to analyse business risks depending on the importance of the respective business risk for the business division.

A value-at-risk approach is used in the risk-bearing capacity analysis. The modelling approach consists of two components and takes account of the fact that business risks – particularly in fund business – play an important role, while the main risks in banking business are counterparty and market price risk.

The significant risk factors for fund business in the Securities and Real Estate business divisions are levels of commission income and expenses, which vary in line with customer behaviour and the market environment. The volatility of these risk factors is simulated using reference indices, based on the asset class. Furthermore, an additional economic capital requirement, in the form of a standard surcharge, has been set up for activities in the other business divisions, and in order to ensure that the approach to determining risk is conservative. There are currently no business risks to be considered in the Treasury corporate centre and non-core business.

During the year under review, the VaR of business risk fell to €356m (end of 2015: €422m). In the Securities business division, lower volatilities in relation to equity and mixed funds helped in particular to reduce risk. In addition, the implementation of the results of the 2015 validation exercise brought about a minor decrease in risk. In the general surcharge there was also a reduction in business risk, which predominantly reflects decreasing counterparty and market price risks in the Capital Markets business division.

Reputational risk

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

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

Other risks

Shareholding risk

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

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

At the end of 2016, the VaR related to shareholding risk totalled €20m (end of 2015: €28m).

Property fund risk

Property fund risk results from property fund units held in the Bank's own portfolio. With a VaR of just €19m (end of 2015: €13m), it remains an immaterial risk for the Deka Group.

Structured capital market credit products

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

In terms of volume, this portfolio is no longer a significant part of DekaBank's overall portfolio, given that the business is being wound down. As a result of maturities and repayments, the net nominal value as at 31 December 2016 was only €319.2m (end of 2015: €416.8m).

At the end of the reporting period, 99.0% of the portfolio (end of 2015: 94.5%) consisted of investment-grade securities. The remaining portfolio continues to focus on western Europe. As at the end of 2016, 91.9% of the securitisations related to the European market.

Based on current expectations, around half of the remaining securitised positions will be repaid or will expire by the end of 2019.

Based on a confidence level of 99% and a holding period of ten days, as at the year end the credit spread risk for the securitisation positions in non-core business totalled €1.3m (end of 2015: €2.4m).

Report of the Administrative Board

During the reporting year, the Administrative Board and its committees carried out the duties assigned to them by law, the Bank's statutes and its rules of procedure. The members of the Administrative Board and its committees regularly advised the Board of Management on management issues and oversaw proper conduct of the Bank's affairs by the management. They were involved in all fundamentally significant decisions regarding the company.

Key issues of Administrative Board meetings

A total of four meetings took place in 2016, during which the Board of Management informed the Administrative Board about the Bank's current business trends and profit performance, its risk position and the Deka Group's strategic direction. The Board of Management reported on and discussed business and risk strategies with the Administrative Board in accordance with the minimum requirements for risk management of German credit institutions (MaRisk). The Administrative Board approved the medium-term plan for the years 2017 to 2019 that was prepared on this basis and submitted by the Board of Management. The reports on the activities of Audit and Compliance, along with the remuneration report for the 2015 financial year, were also submitted to the Administrative Board.

Between meetings, the Board of Management informed the Administrative Board of any significant events in writing. Important topics and pending decisions were discussed regularly between the Chairman of the Administrative Board and the Chairman of the Board of Management.

The Administrative Board was provided with regular reports about the implications of developments in the international capital markets for the Bank's earnings, liquidity and risk position, as well as management measures taken by the Board of Management. In addition, the Administrative Board received regular updates concerning the status of ongoing projects, particularly the continued implementation of DekaBank's transformation programme to become the Wertpapierhaus for the savings banks. Another key issue was the passing of resolutions on matters relating to the Board of Management. One member of the Administrative Board did not take part in the Board's deliberations regarding an equity investment because of a potential conflict of interest.

During the 2016 financial year, the Administrative Board held three full-day training events. In January it turned its attention to the asset management strategy for business with institutional customers. During the event held in February, the Administrative Board received a presentation on processes and priority areas for risk management and control. The third training day, which took place in October, was devoted to information technology.

Administrative Board Committees

The Administrative Board has established a General and Nomination Committee, a Remuneration Supervision Committee, an Audit and Risk Committee and a Credit Committee. The committees are drawn from the members of the Administrative Board. They support the work of the Administrative Board and carry out preparatory work on the issues and resolutions to be discussed in the main Board meetings. The committees' duties are specified in the Administrative Board's rules of procedure.

The General and Nomination Committee met four times during the past year, focusing primarily on the business model and the strategic development of DekaBank. It also took decisions on a number of matters relating to the Board of Management, including the allocation of duties to Board of Management members and the establishment of policies on contractual arrangements and remuneration. In addition, the General and Nomination Committee issued recommendations on the re-appointment of Board of Management members and on the appointment of new members to the Administrative Board.

The Remuneration Supervision Committee met four times in 2016. It discussed the remuneration report and the remuneration supervision report for 2015, gave consideration to whether the remuneration systems for the Board of Management and employees were set up appropriately and prepared resolutions covering Board of Management members' remuneration and targets.

The Audit and Risk Committee met four times during 2016. It conducted a detailed review of the financial statements and consolidated financial statements. It also verified the requisite independence of the auditors, engaged the auditors to perform their audit based on the key audit priorities established and concluded a fee agreement.

The Audit and Risk Committee was provided with a comprehensive overview of the Deka Group's accounting system and the effectiveness of its risk management systems. It obtained reports on the audit activities of external auditors, the Internal Audit department and the Compliance unit, as well as on the resulting action to be taken. The Audit and Risk Committee took note of the report on the Internal Control System (ICS) and conducted a detailed examination of DekaBank's risk position. This examination included credit, market price, liquidity and operational risks, as well as other types of risk, such as business and shareholding risks, and legal and reputational risks. It also received regular reports on the status of national and international regulatory projects of relevance to DekaBank.

Other key issues addressed by the Audit and Risk Committee included discussing the business, risk and IT strategies, updating the recovery plan and carrying out preparatory work for the resolution plan to be prepared by the competent resolution authorities. The Audit and Risk Committee also discussed the results of the 2016 stress test carried out by the European Banking Authority.

The members of the Credit Committee met four times during the reporting year. In its capacity as a loan approval body, the Committee passed relevant resolutions and familiarised itself with the risk position in lending business. As part of this process, it gave particular attention to developments in the ship financing portfolio. The Credit Committee also held discussions with the Board of Management covering the business policy for lending business and the credit risk strategy.

The Chairmen or the Deputy Chairmen of the individual committees reported to the Administrative Board on a regular basis concerning the results of consultations held by the respective committees.

Audit and approval of 2016 financial statements and consolidated financial statements

At DekaBank's Shareholders' Meeting, KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG) was appointed as auditor for the 2016 financial year. KPMG audited DekaBank's 2016 financial statements and management report, as well as the consolidated financial statements, notes and Group management report, and issued an unqualified audit opinion on them.

These financial statements and associated documents were forwarded promptly to the members of the Administrative Board, along with KPMG's reports. The auditors attended the relevant meetings of the Audit and Risk Committee as well as the Administrative Board's meeting to review the financial statements, which was held today. The auditors reported on the findings of their audit and provided additional information where required. The Administrative Board took note of the auditors' findings and, following its own examination, raised no objections.

The Administrative Board approved the 2016 financial statements and submitted a proposal to the Shareholders' Meeting regarding the appropriation of accumulated profit.

Changes to the Board of Management and Administrative Board

During the 2016 financial year, the Administrative Board extended the appointment of CEO Michael Rüdiger with effect from 1 November 2017, and the appointment of Deputy CEO Dr. Georg Stocker with effect from 1 August 2017, each for a further five years.

The Administrative Board withdrew its decision to appoint Stefan Keitel to the Board of Management. Instead, Mr Keitel took on the role of CEO of Deka Investment GmbH, with effect from 1 January 2017.

Ludwig Momann, CEO of the Emsland savings bank, was elected as a member of the Administrative Board with effect from 17 March 2016.

Hans-Werner Sander stepped down from his position on the Administrative Board at the end of 2016. The Administrative Board would like to thank Mr Sander for his valuable contributions and the constructive support he has given to the company and the Board of Management.

Government supervision of DekaBank is exercised by the Federal Minister of Finance.

DekaBank performed well in the 2016 financial year, in a persistently difficult market environment. This reflects the valuable work performed by DekaBank's Board of Management and employees. The Administrative Board would like to thank them for their achievements and considerable personal commitment.

Frankfurt/Main, 30 March 2017

The Administrative Board

Georg Fahrenschon
Chairman of the Administrative Board

Consolidated financial statements 2016.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). They comprise the balance sheet, statement of profit or loss and other comprehensive income, statement of changes in equity, cash flow statement and the notes. Together with economic risk, the economic result – a central performance and management measure – forms the basis for risk/return management in the Deka Group and is, in principle, determined in accordance with the accounting and measurement rules set out in IFRS reporting standards.

Consolidated financial statements

Statement of profit or loss and other comprehensive income for the period from 1 January to 31 December 2016

€m	Notes	2016	2015	Change	
Interest and similar income		891.7	1,038.9	–147.2	–14.2%
Interest expenses		755.5	847.4	–91.9	–10.8%
Net interest income	[30]	**136.2**	**191.5**	–55.3	–28.9%
Provisions for loan losses	[15], [31], [43]	**–194.6**	**–65.1**	–129.5	–198.9%
Net interest income after provisions for loan losses		**–58.4**	**126.4**	–184.8	–146.2%
Commission income		2,025.3	2,083.5	–58.2	–2.8%
Commission expenses		918.1	973.4	–55.3	–5.7%
Net commission income	[32]	**1,107.2**	**1,110.1**	–2.9	–0.3%
Trading profit or loss	[33]	**252.7**	**236.3**	16.4	6.9%
Profit or loss on financial instruments designated at fair value	[34]	**145.0**	**33.8**	111.2	(> 300%)
Profit or loss from fair value hedges in accordance with IAS 39	[35]	**2.4**	**–4.1**	6.5	158.5%
Profit or loss on financial investments	[36]	**–13.5**	**–18.7**	5.2	27.8%
Administrative expenses	[37]	**970.1**	**917.4**	52.7	5.7%
Other operating income	[38]	**24.2**	**34.6**	–10.4	–30.1%
Net income before tax		**489.5**	**601.0**	–111.5	–18.6%
Income taxes	[39]	**164.3**	**214.2**	–49.9	–23.3%
Interest expenses for atypical silent capital contributions	[28], [61]	**61.2**	**56.9**	4.3	7.6%
Net income		**264.0**	**329.9**	–65.9	–20.0%
Of which:					
Attributable to non-controlling interests		0.0	0.0	0.0	n/a
Attributable to the shareholders of DekaBank		264.0	329.9	–65.9	–20.0%
Changes not recognised in income					
Items reclassified into profit or loss					
Financial instruments valuation reserve Available for sale		5.1	0.0	5.1	n/a
Cash flow hedges valuation reserve	[62]	10.4	–13.0	23.4	180.0%
Currency translation reserve	[11], [62]	–14.4	3.7	–18.1	(< –300%)
Deferred taxes on items reclassified into profit or loss	[49]	–3.4	4.2	–7.6	–181.0%
Items not reclassified into profit or loss					
Revaluation gains/losses on defined benefit pension obligations	[56], [62]	–15.1	55.4	–70.5	–127.3%
Revaluation reserve investments accounted for using the equity method		–1.2	–3.3	2.1	63.6%
Deferred taxes on items not reclassified into profit or loss	[49]	5.2	–13.7	18.9	138.0%
Other comprehensive income		**–13.4**	**33.3**	–46.7	–140.2%
Net income for the period under IFRS		**250.6**	**363.2**	–112.6	–31.0%
Of which:					
Attributable to non-controlling interests		0.0	0.0	0.0	n/a
Attributable to the shareholders of DekaBank		250.6	363.2	–112.6	–31.0%

Balance sheet as at 31 December 2016

€m	Notes	31 Dec 2016	31 Dec 2015	Change	
Assets					
Cash reserves	[40]	**3,687.6**	**3,608.1**	79.5	2.2%
Due from banks	[14], [41]	**20,653.9**	**27,094.0**	–6,440.1	–23.8%
(net after provisions for loan losses amounting to)	[15], [43]	(0.2)	(2.4)	–2.2	–91.7%
Due from customers	[14], [42]	**22,840.9**	**22,508.0**	332.9	1.5%
(net after provisions for loan losses amounting to)	[15], [43]	(333.1)	(222.0)	111.1	50.0%
Financial assets at fair value	[16], [44]	**34,903.2**	**50,907.8**	–16,004.6	–31.4%
(of which deposited as collateral)	[74]	(5,200.0)	(10,642.9)	–5,442.9	–51.1%
Positive market values from derivative hedging instruments	[9], [17], [45]	**28.6**	**109.0**	–80.4	–73.8%
Financial investments	[18], [46]	**2,968.9**	**2,944.4**	24.5	0.8%
(net after provisions for loan losses amounting to)	[18]	(53.8)	(38.4)	15.4	40.1%
(of which deposited as collateral)	[74]	(774.4)	(785.7)	–11.3	–1.4%
Intangible assets	[19], [47]	**198.1**	**191.2**	6.9	3.6%
Property, plant and equipment	[20], [48]	**17.1**	**16.3**	0.8	4.9%
Current income tax assets	[22], [49]	**193.6**	**164.0**	29.6	18.0%
Deferred income tax	[22], [49]	**156.1**	**57.5**	98.6	171.5%
Other assets	[21], [50]	**306.7**	**380.5**	–73.8	–19.4%
Total assets		**85,954.7**	**107,980.8**	–22,026.1	–20.4%
Liabilities					
Due to banks	[23], [51]	**17,362.4**	**24,084.1**	–6,721.7	–27.9%
Due to customers	[23], [52]	**23,419.1**	**29,462.0**	–6,042.9	–20.5%
Securitised liabilities	[23], [53]	**11,076.1**	**19,921.8**	–8,845.7	–44.4%
Financial liabilities at fair value	[16], [54]	**26,519.5**	**27,114.8**	–595.3	–2.2%
Negative market values from derivative hedging instruments	[9], [17], [55]	**34.4**	**36.0**	–1.6	–4.4%
Provisions	[15], [24], [25], [43], [56], [57]	**358.0**	**453.9**	–95.9	–21.1%
Current income tax liabilities	[22], [58]	**58.9**	**79.7**	–20.8	–26.1%
Deferred income tax	[22], [58]	**123.3**	**28.1**	95.2	(> 300%)
Other liabilities	[26], [59]	**745.7**	**675.2**	70.5	10.4%
Subordinated capital	[27], [60]	**1,118.5**	**1,149.7**	–31.2	–2.7%
Atypical silent capital contributions	[28], [61]	**52.4**	**52.4**	0.0	0.0%
Equity	[29], [62]	**5,086.4**	**4,923.1**	163.3	3.3%
a) Subscribed capital		191.7	191.7	0.0	0.0%
b) Additional capital components		473.6	473.6	0.0	0.0%
c) Capital reserves		190.3	190.3	0.0	0.0%
d) Reserves from retained earnings		4,293.0	4,119.1	173.9	4.2%
e) Revaluation reserve	[7], [9], [17], [18], [22], [46]	–134.7	–135.7	1.0	0.7%
f) Currency translation reserve	[11]	1.8	16.2	–14.4	–88.9%
g) Accumulated profit/loss (consolidated profit)		70.7	67.9	2.8	4.1%
h) Minority interests		0.0	0.0	0.0	n/a
Total liabilities		**85,954.7**	**107,980.8**	–22,026.1	–20.4%

Statement of changes in equity for the period from 1 January to 31 December 2016

€m	Subscribed capital	Additional capital components	Capital reserves	Reserves from retained earnings	Consolidated profit/loss
Holdings as at 1 Jan 2015	**191.7**	**473.6**	**190.3**	**3,855.3**	**65.6**
Net income for the year					329.9
Other comprehensive income					
Net income for the period under IFRS	**–**	**–**	**–**	**–**	**329.9**
Changes in the scope of consolidation[1] and other changes				1.8	
Allocation to reserves from retained earnings				262.0	–262.0
Distribution					–65.6
Holdings as at 31 Dec 2015	**191.7**	**473.6**	**190.3**	**4,119.1**	**67.9**
Net income for the year					264.0
Other comprehensive income					
Net income for the period under IFRS	**–**	**–**	**–**	**–**	**264.0**
Changes in the scope of consolidation[1] and other changes				–19.4	
Allocation to reserves from retained earnings				193.3	–193.3
Distribution					–67.9
Holdings as at 31 Dec 2016	**191.7**	**473.6**	**190.3**	**4,293.0**	**70.7**

[1] Comprises the issue and payment of interest (after taxes) of Additional Tier 1 bonds, which are classified as equity capital under IFRS.
[2] revaluation gain/losses on defined benefit obligations

Revaluation reserve					Currency translation reserve	Total before minority interests	Minority interests	Equity
Provisions for pensions [2]	Cash flow hedges	Financial instruments available for sale	Equity-accounted companies	Deferred taxes				
−209.8	**−26.5**	**–**	**–**	**71.0**	**12.5**	**4,623.7**	**–**	**4,623.7**
						329.9		**329.9**
55.4	−13.0	0.0	−3.3	−9.5	3.7	**33.3**		**33.3**
55.4	**−13.0**	**0.0**	**−3.3**	**−9.5**	**3.7**	**363.2**	**–**	**363.2**
						1.8	**–**	**1.8**
						–		**–**
						−65.6		**−65.6**
−154.4	**−39.5**	**–**	**−3.3**	**61.5**	**16.2**	**4,923.1**	**–**	**4,923.1**
						264.0		**264.0**
−15.1	10.4	5.1	−1.2	1.8	−14.4	**−13.4**		**−13.4**
−15.1	**10.4**	**5.1**	**−1.2**	**1.8**	**−14.4**	**250.6**	**–**	**250.6**
						−19.4	**–**	**−19.4**
						–		**–**
						−67.9		**−67.9**
−169.5	**−29.1**	**5.1**	**−4.5**	**63.3**	**1.8**	**5,086.4**	**–**	**5,086.4**

Statement of cash flows from 1 January to 31 December 2016

€m	31 Dec 2016	31 Dec 2015
Net income	**264.0**	**329.9**
Non-cash items in net income and adjustments to reconcile net profit with cash flow from operating activities		
+/– Write-downs and write-backs		
on receivables and financial investments	207.5	92.1
on intangible assets and property, plant and equipment	18.1	20.2
+/– Allocation to/reversal of provisions	27.3	90.7
+/– Profit or loss from fair value hedges in accordance with IAS 39	–2.4	4.1
+/– Other non-cash items	–26.6	171.7
+/– Profit or loss on the disposal of financial investments and property, plant and equipment	2.2	–47.6
+/– Other adjustments	138.4	–406.2
= Sub-total	**628.5**	**254.9**
Change to assets and liabilities arising from operating activities		
+/– Due from banks	6,520.6	–2,500.9
+/– Due from customers	–555.6	807.2
+/– Financial assets at fair value	17,262.5	5,547.2
+/– Financial investments	–154.4	–55.9
+/– Other assets arising from operating activities	7.2	346.8
+/– Due to banks	–6,749.1	–2,624.1
+/– Due to customers	–6,660.9	1,895.7
+/– Securitised liabilities	–8,850.1	–4,192.0
+/– Financial liabilities at fair value	–1,718.3	2,898.9
+/– Other liabilities arising from operating activities	29.4	–486.5
+ Interest received	1,076.2	1,674.5
+ Dividends received	19.0	33.7
– Interest paid	–754.8	–1,088.1
– Income tax payments	–214.9	–189.5
Cash flow from operating activities	**–114.7**	**2,321.9**
+ Proceeds from the disposal or redemption of		
financial investments classified as held to maturity	373.8	540.5
equity investments	4.1	8.7
property, plant and equipment	0.0	54.9
intangible assets	0.0	0.0
– Disbursements for the purchase of		
financial investments classified as held to maturity	0.0	0.0
intangible assets	–19.2	–5.4
property, plant and equipment	–2.7	–1.4
+ Proceeds from the sale of shares in affiliated, non-consolidated companies	0.0	0.0
– Disbursements for the acquisition of shares in affiliated, non-consolidated companies	–0.4	–3.6
+ Dividends received	0.0	0.3
+/– Changes in scope of consolidation and other changes	–4.3	0.0
Cash flow from investing activities	**351.3**	**594.0**
+ Proceeds from issue of new equity capital	0.0	0.0
– Payments to company owners and minority interests	–48.1	–20.6
– Dividends paid	–67.9	–65.6
+ Inflow of funds from subordinated capital	0.0	0.0
– Outflow of funds from subordinated capital	–40.9	–9.0
+/– Changes in scope of consolidation and other changes	0.0	9.0
Cashflow from financing activities	**–156.9**	**–86.2**
= Changes to cash and cash equivalents	79.7	2,829.7
+/– Other effects	0.0	0.0
+ Cash and cash equivalents at the start of the period	3,608.1	778.4
Cash and cash equivalents at the end of the period	**3,687.8**	**3,608.1**

The cash flow statement shows the change in the Deka Group's cash balance during the financial year. The item cash and cash equivalents corresponds to the balance sheet item cash reserves (see note [40]).

The cash flow from operating activities is determined using the indirect method, i.e. net income is adjusted first by non-cash items, especially revaluations and allocations to provisions. The item other adjustments mainly includes the reclassification of interest and dividends received as cash and interest and income tax payments made during the financial year which have to be reported separately in accordance with IAS 7.

The cash flow from investing activities shows the proceeds and disbursements relating to items whose purpose relates in principle to long-term investment or use.

Financing activities encompass equity as well as cash flows from atypical silent capital contributions and from subordinated capital.

The cash flow statement is of minor importance for banks as it does not provide any information about the actual liquidity position. For details of Deka Group's liquidity risk management, please see the risk report.

Notes

Accounting principles

The consolidated financial statements of DekaBank Deutsche Girozentrale have been prepared in accordance with International Financial Reporting Standards (IFRS). The applicable IFRS are those published by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) into European law at the time the financial statements are prepared. Account is also taken of the national regulations contained in the German Commercial Code (*Handelsgesetzbuch* – HGB) under Section 315a of the HGB. The management report was prepared in accordance with Section 315 of the HGB.

The consolidated financial statements, which are reported in euros, comprise the balance sheet, statement of profit or loss and other comprehensive income, statement of changes in equity, cash flow statement and the notes. All amounts are rounded in accordance with standard commercial practice. This may result in small discrepancies in the calculation of totals within tables.

Accounting standards applied for the first time

During the reporting period, the Bank implemented, for the first time, amendments to existing standards (IAS 1, IAS 16, IAS 27, IAS 38, IAS 41, IFRS 11 and changes under the Annual Improvements Project 2012 to 2014), which became mandatory in the EU as of 1 January 2016. Apart from the new standards and interpretations detailed below, which could have a material impact on the consolidated financial statements, a number of further standards and interpretations were adopted that are not, however, expected to have a material impact on the consolidated financial statements.

Accounting standards to be applied in the future

New standards and interpretations and amendments to standards and interpretations published by the IASB and IFRIC, which have been adopted into European law by the EU and do not have to be applied until subsequent financial years, were not applied early. Changes relevant to the Deka Group are presented below.

Standards and interpretations not yet adopted into European law

Annual Improvements

In December 2016, the IASB published amendments to three standards as part of its Annual Improvements Project for 2014–2016. The amendments to IFRS 12 apply from 1 January 2017, while the amendments to IFRS 1 and IAS 28 shall apply from 1 January 2018. The amendments only involve clarifications. Voluntary early adoption is permitted. The amendments are currently being evaluated.

IAS 7

In January 2016, as part of a disclosure initiative to improve financial statements, the IASB published amendments to IAS 7 "Statement of Cash Flows". In particular, the new rules contain additional disclosure obligations concerning cash flows related to financing activities. The amended standard applies to financial years beginning on or after 1 January 2017. Earlier voluntary adoption is permitted. The amendments are currently being evaluated.

IAS 12

Also in January 2016, the IASB published amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses". The amendments exclusively involve clarifications to the requirements for recognition of deferred tax assets for unrealised losses, accounting for deferred tax assets related to assets measured at fair value and other aspects of accounting for deferred taxes. The amended standard applies to financial years beginning on or after 1 January 2017. Earlier voluntary adoption is permitted. The amendments have no impact on the Deka Group's consolidated financial statements.

IFRS 16

The new IFRS 16 standard was published in January 2016 and governs how leases should be accounted for. IFRS 16 will replace IAS 17 "Leases", as well as the associated interpretations IFRIC 4, SIC-15 and SIC-27. Application of the new standard is mandatory for financial years beginning on or after 1 January 2019. Earlier voluntary adoption is permitted, but only in conjunction with IFRS 15. Early adoption is not planned.

The new standard requires lessees to follow an entirely new approach when presenting leasing contracts in the financial statements. Under IAS 17, the key factor in determining how a lessee should present a lease in its financial statements is whether or not substantially all of the risks and rewards of ownership of the item being leased have been transferred to the lessee. In future, every lease should be presented on the lessee's balance sheet as a financing transaction, in the form of a lease liability and a right-of-use asset. The amount recognised is the present value of the future lease payments, with additional factors being taken into account in relation to the right-of-use asset, for example directly attributable costs. Over the lease term, the lease liability is accreted, while the right-of-use asset is depreciated through the statement of profit or loss and other comprehensive income. The standard provides for exemptions in certain cases, for example short-term leases or leases of low-value assets. The accounting requirements for lessors remain largely unchanged, in particular in terms of the ongoing requirement to classify leases.

Furthermore, IFRS 16 includes a number of additional provisions regarding disclosures in the notes to the financial statements and presentation. The impact on the consolidated financial statements is currently being reviewed. In particular, an effect is expected when accounting for leased commercial properties, although the impact on the Deka Group's net assets, financial position and results of operations is likely to be negligible. A minor increase in total assets is expected, while some reclassifications between items in the statement of profit or loss and other comprehensive income will also result.

Standards adopted into European law but not yet applied

IFRS 9

The IASB published the final requirements for IFRS 9 "Financial Instruments" on 24 July 2014. IFRS 9 contains new regulations governing the classification and measurement of financial instruments, the impairment of financial assets and the recognition of hedging relationships. IFRS 9 was adopted into European law by the European Commission in November 2016. As a result, application of IFRS 9 is mandatory for financial years beginning on or after 1 January 2018.

A significant impact will result from a change in the model used for determining loan loss provisions. From 2018, the incurred loss model applicable under IAS 39 will be replaced by an expected loss model. In order to determine the size of the loan loss provision to be established, assets within the scope of IFRS 9 must be allocated to one of three 'stages', depending on the credit quality of those assets. The stage to which an asset is allocated has an effect on the size of the loan loss provision to be established for the respective asset. Upon initial recognition, a loan loss provision will be recognised through profit or loss in the amount of the expected loss for the next 12 months, and the asset will be allocated to stage one. If the credit risk should increase significantly after initial recognition of the financial instrument, or if there are indications that the financial instrument's creditworthiness has been impaired, the expected loss over the remaining term of the financial instrument ('lifetime ECL') should be recognised through profit or loss, and the asset transferred to stage two. The input parameters 'probability of default' and 'loss given default' for the 12-month and lifetime horizons from the reporting date ('point in time' estimate), as well as the 'exposure at default' calculated on a lifetime basis, play a significant role in this regard. If there are objective indications that a loss event has already occurred, the financial instrument should be allocated to stage three. However, this excludes purchased or originated credit-impaired (POCI) assets, which are an exception to the general model. For these financial instruments, no loan loss provision is booked at the time of initial recognition but changes in the amount of the lifetime ECL will be recognised in subsequent periods.

Furthermore, effects arise from the need to reclassify financial assets and from recording fair value changes attributable to own credit risk for liabilities.

In contrast to IAS 39, the new classification rules under IFRS 9 provide for a classification model for assets, which is based on the underlying business model and contractual cash flows. The business model reflects how the Bank manages its financial assets in order to generate cash flows. For the purposes of IFRS 9, there are thus the following business models: 'holding', 'holding and selling' and 'residual'. For financial assets allocated to the 'holding' or 'holding and selling' business models, it is necessary to examine the cash flow criteria. All cash flows of the asset may consist only of the following components: repayment and interest payments on the nominal amount, with interest essentially representing remuneration for the time value of money and the credit risk.

For the present, it is not mandatory to implement hedge accounting, and DekaBank does not therefore plan to do so.

The new accounting provisions under IFRS 9 will require not only changes to technical accounting workflows and systems, and enhancements to existing data management for the purposes of classifying financial instruments and determining loan loss provisions, but will also lead to the implementation of new processes throughout the Deka Group. In addition, it will be necessary to make changes within DekaBank's systems and to introduce new technical system solutions.

DekaBank carried out a preliminary study of IFRS 9 from September 2015 until the end of April 2016. Subsequent to this, the first implementation phase started, looking at detailed technical specifications, and was completed at the end of 2016. Based on this, the second implementation phase is being conducted in 2017, and predominantly involves the design of IT-related and data processing specifications as well as technical implementation. In parallel to this, new processes are being implemented throughout the Group.

IFRS 15

In May 2014, a new standard was published, IFRS 15 "Revenue from Contracts with Customers". This standard replaces the previous rules on revenue recognition (IAS 18 "Revenue", IAS 11 "Construction Contracts" and the associated interpretations). The new standard provides a five-step model to be used to determine the amount and timing of revenue recognition. IFRS 15 must be applied to all contracts with customers that cover the sale of goods or the provision of services, with some exceptions, such as financial instruments for which revenue recognition falls within the scope of IFRS 9/IAS 39.

In addition, in April 2016 clarifications to IFRS 15 were published. The clarifications do not contain any changes to the underlying principles of the new standard. They are solely concerned with clarifications and additional transitional relief.

The new standard applies to financial years beginning on or after 1 January 2018. Earlier voluntary adoption is permitted.

The impact on the consolidated financial statements is currently being reviewed. No material impact on the statement of profit or loss and comprehensive income is expected. Changes in balance sheet disclosure may result from the separate presentation of receivables, contract assets and contract liabilities. IFRS 15 contains supplementary disclosures on the nature, amount, timing and uncertainty of proceeds and payment streams resulting from contracts with customers. This gives rise to changes in processes as well as increased documentation requirements.

Segment reporting

1 Note on segment reporting

Segment reporting is based on the management approach in accordance with IFRS 8. Segment information is presented in line with internal reporting as submitted to the Chief Operating Decision Maker on a regular basis for decision-making, resource allocation and performance assessment purposes. The Deka Group's management reporting is based on IFRS.

However, as the suitability of net income before tax for the purposes of internally managing the business divisions is limited, the economic result has been defined as the key management indicator. Due to the requirements of IFRS 8, the economic result has also been included in external reporting as material segment information.

In addition to net income before tax, the economic result includes changes to the revaluation reserve before tax as well as the interest rate and currency-related valuation result from original lending and issuance business. This refers to financial instruments in the loans and receivables, held to maturity and other liabilities categories, which are measured at amortised cost in the consolidated financial statements and whose valuation result is also included in internal reporting. Consequently, the existing economic hedges which do not meet the criteria for hedge accounting under IAS 39 are presented in full for internal management purposes. Furthermore, the economic result takes into account the interest expense on Additional Tier 1 bonds, which is reported directly within equity, as well as effects relevant for management. These effects relate to a provision for potential charges where the probability of such charges arising in the future is assessed as possible but they may not yet be recorded in IFRS reporting, due to the fact that accurate details are not available. The measurement and reporting differences versus the IFRS consolidated financial statements are shown in the reconciliation to Group income before tax in the 'reconciliation' column.

In addition to the economic result, total customer assets represent another key ratio for the operating segments. Total customer assets primarily comprise the income-relevant fund assets of the mutual and special funds under management (including ETFs) in the Securities and Real Estate business divisions, as well as certificates issued by the Deka Group. Other components are the volume of direct investments in cooperation partner and third party funds, the cooperation partner fund, third party fund and liquidity portions of fund-based asset management as well as advisory/management mandates and master funds. Total customer assets also include DekaBank's own portfolios of €1.3bn (previous year: €1.8bn). These mainly relate to start-up financing for newly launched investment funds.

Based on the definition in Section 19 (1) of the German Banking Act (*Kreditwesengesetz* – KWG), the gross loan volume includes additional risk positions such as, among other things, underlying risks from equity derivative transactions and transactions for the purposes of mapping the guarantees of guarantee funds, as well as the volume of off-balance sheet counterparty risks.

The following segments are based on the business division structure of the Deka Group, as also used in internal reporting. The segments are defined by the different products and services of the Deka Group.

Securities

The Securities segment consists of all the Deka Group's activities relating to capital-market based asset management for private investors and institutional customers. In addition to investment funds and structured investment concepts, the product range also includes products from selected international cooperation partners. The Deka Group's investment funds cover all the major asset classes, sometimes in conjunction with guarantee, discount and bonus structures. The offering for private retirement pensions encompasses fund-based Riester and Rürup products. The segment also comprises advisory, management and asset management mandates for institutional customers as well as institutional customer sales. In addition, the segment includes business involving listed Exchange-Traded Funds (ETFs). The range of services offered by the segment also includes the Master KVG activities, which institutional customers can use to pool their assets under management with one investment company. Securities-related services provided in connection with fund administration in the Securities segment are also reported here.

Real Estate

All property-related activities of the Deka Group are pooled in the Real Estate segment. The main focus is on the provision of property investment products for private and institutional investors. The product range includes open-ended property mutual funds, property special funds and individual property funds, as well as property finance and infrastructure finance funds. Alongside the fund management and development of property (financing) related products, the segment also includes the purchase and sale of property and the management of these assets including all other property-related services (property management), as well as the management of property used by the Deka Group. The Property Financing unit serves as a credit provider for the Asset Management business, by offering financial solutions for third parties to professional property investors with a focus on markets, business partners and usage categories relevant to fund business.

Capital Markets

The Capital Markets segment is the central product, solution and infrastructure provider for the Deka Group. It also acts as a service provider and drives forward innovation in the Deka Group's customer-focused capital market business. With its tailored range of services, it provides the central securities and collateral platform for the savings bank association. The segment focuses on the generation of customer-driven business in the triangle of savings banks, the Deka Group and selected counterparties and business partners, which include external asset managers, banks, insurance companies and pension funds. In this environment, the Capital Markets segment offers a carefully coordinated, competitive range of capital market and credit products. At the start of the 2016 financial year, any securities investments not used as a liquidity reserve were transferred from the Treasury corporate centre to the Capital Markets business division. As part of this new arrangement, Treasury took over responsibility for group-wide liquidity management across all maturity bands. The previous year's results presented within segment reporting have been adjusted as a result of the structural change.

Financing

In addition to providing refinancing for the savings banks, the Financing segment focuses on lending business that is suitable for asset management business, and where loans can be passed on to other banks or to institutional investors. The lending business suitable for asset management concentrates on selected segments. These include infrastructure financing, ship and aircraft financing and ECA-covered export finance.

Other

The segment Other primarily comprises income and expenses that are not attributable to the other operating segments. These essentially relate to overheads, actuarial gains and losses resulting from the measurement of pension obligations as well as a general provision for potential losses that are not directly allocable to any operating segment. Since 2016, the Treasury function's income and expenses have been allocated to the other segments on a source-specific basis and are thus taken into account in the economic result shown for each respective segment.

Non-core business

Business activities that are being discontinued have been pooled in non-core business since 2009. The portfolio essentially comprises securitised products (legacy transactions) and the former public-finance positions. Until the start of 2016, non-core business included certain corporate financing arrangements, leveraged loans, trade financing and non-ECA-covered export finance. Due to the small gross loan volume and for organisational reasons, these have been transferred to the core business. The transferred commitments and business segments will not form part of the Bank's business strategy in future. All portfolios will continue to be reduced while safeguarding assets.

2 Segmentation by operating business divisions

In principle, income and expenses are allocated on a source-specific basis to the relevant segment. Segment expenditure comprises direct expenses as well as those allocated on the basis of cost and service accounting.

Effects relevant for management relate to a provision for potential charges where the probability of such charges arising in the future is assessed as possible, and which are taken into account within corporate management activities as a result of the use of the economic result for management purposes, but which may not be reported under IFRS at the present time because they are not sufficiently substantiated.

To cover potential risks that could materialise in the coming months, a general provision was recognised for the first time in the 2012 financial year. As at 31 December 2016, the provision for these effects relevant to management amounted to €–110.0m (previous year: €–100.0m). The net impact on the economic result was thus €–10.0m in the reporting year and is reported under Other. In the previous year, the net impact on income amounted to €12.6m, of which €17.6m was attributable to the Capital Markets segment and €–5m to the segment Other.

In addition, the economic result includes the full interest expense (including accrued interest) in respect of the AT1 bonds in the portfolio, amounting to €–28.4m (previous year: €–28.4m). Distributions made were recorded directly in equity, in accordance with IAS 32.

Reconciliation of segment results to the IFRS result

During the financial year, the reporting and measurement differences between internal reporting and IFRS net income before tax amounted to €–74.4m (previous year: €9.6m).

The valuation result not recognised in profit or loss amounted to €–70.3m in the financial year (previous year: €–29.7m). Of this total, €2.7m (previous year: €23.8m) relates to interest rate and currency-related valuation results from original lending and issuing business, €–34.6m (previous year: €–37.7m) is attributable to securities in the held to maturity category, which are offset in IFRS net income before tax by valuation results from the corresponding interest rate swaps, and €–10.0m (previous year: €12.6m) arises from accounting for effects relevant for management. The valuation result not recognised in profit or loss also takes into account the interest expense arising from the AT1 bonds in the amount of €–28.4m (previous year: €–28.4m).

The Bank also hedges future credit margins on fixed-interest and variable-interest foreign currency loans (original position) against currency fluctuations. The accounting and valuation rules for cash flow hedges were applied to economic hedges. Accordingly, the valuation result from hedging instruments amounting to €10.4m (previous year: €–13.1m) is reported in the revaluation reserve with no impact on profit or loss and hence forms part of the economic result. Also recorded in the economic result are the change in the revaluation reserve from actuarial gains and losses in the amount of €–15.1m (previous year: €55.4m) and an amount of €–1.2m (previous year: €–3.3m) posted within equity in respect of shares in companies accounted for using the equity method. It also included the change in the revaluation reserve from available for sale portfolios, which amounted to €5.1m (previous year: €0.0m).

The other amounts shown in the reconciliation column refer to reporting differences between management reporting and the consolidated financial statements. Of these, €31.3m (previous year: €20.4m) relates to internal transactions, which are reported in the economic result. The majority of these are included within net interest income, while the corresponding offsetting income effects are reported under net financial income. There are also reporting differences in net financial income and in other operating income arising from differences in the allocation of income effects from the repurchase of own issues as well as from the release through profit or loss of a reserve in relation to the deconsolidation of the subsidiary ExFin AG i.L., Zurich, due to the completion of its liquidation.

	Securities		Real Estate		Capital Markets		Financing	
	Economic result							
€m	2016	2015	2016	2015	2016	2015	2016	2015
Net interest income	15.0	27.8	56.1	61.4	40.7	43.3	67.2	71.6
Provisions for loan losses	–	–	4.8	–3.7	0.1	0.1	–199.3	–63.1
Net commission income	801.4	781.6	228.7	220.9	66.9	100.5	11.9	9.6
Net financial income[1]	4.3	–31.6	–4.0	–4.6	262.3	273.7	–13.0	–11.0
Other income[2]	51.5	–16.9	2.0	36.6	12.1	24.0	0.4	0.3
Total income without contributions to earnings from Treasury function	**872.2**	**760.9**	**287.6**	**310.6**	**382.1**	**441.6**	**–132.8**	**7.4**
Administrative expenses (including depreciation)	507.6	458.9	156.2	146.7	163.9	166.5	30.4	26.5
Restructuring expenses[2]	18.5	–4.0	–	–0.1	–	–0.2	–	–
Total expenses before allocation of Treasury function	**526.1**	**454.9**	**156.2**	**146.6**	**163.9**	**166.3**	**30.4**	**26.5**
(Economic) result before tax without Treasury function	**346.1**	**306.0**	**131.4**	**164.0**	**218.2**	**275.3**	**–163.2**	**–19.1**
Treasury function	–7.6		–2.9		–15.9		–9.3	
(Economic) result before tax	**338.5**	**306.0**	**128.5**	**164.0**	**202.3**	**275.3**	**–172.5**	**–19.1**
Cost/income ratio[3]	0.58	0.60	0.55	0.47	0.43	0.38	0.46	0.38
Group risk (value-at-risk)[4]	595	620	183	213	654	807	329	371
Total customer assets	209,242	198,743	32,484	29,504	15,079	11,797	–	–
Gross loan volume	7,079	7,183	7,309	7,022	76,027	94,435	14,676	16,539

[1] This includes the results components from the trading book portfolio, the results from valuation and disposals in the banking book portfolio and the risk provision for securities in the loans and receivables and held to maturity categories in the amount of €–15.2 (previous year: €–14.3m).
[2] Restructuring expenses are shown separately in the segment reporting.
[3] Calculation of the cost/income ratio does not take into account the restructuring expenses or the loan loss provision for lending business.
[4] Value-at-Risk uses the liquidation approach with a confidence level of 99.9% and a holding period of one year as at 31 December in each case. Due to the diversification within market price risk between the segments (including Other and Non-core business) the risk for core business and the risk for the Deka Group are not cumulative.

3 Segmentation by geographical markets

Income from corporate activities by geographical markets is presented below. Allocation to a segment is carried out on the basis of the respective location of the branch or Group company.

	Germany		Luxembourg		Other		Total Group	
€m	2016	2015	2016	2015	2016	2015	2016	2015
Income	1,170.4	1,218.5	306.8	296.0	0.9	–	1,478.1	1,514.5
Net income before tax	359.5	474.4	130.6	124.6	–0.6	2.0	489.5	601.0
Long-term segment assets[1]	211.8	204.9	3.2	2.4	0.2	0.2	215.2	207.5

[1] long-term segment assets excluding financial instruments and deferred income tax assets

Accounting policies

4 General information

Unless otherwise stated, the accounting and valuation policies described were applied uniformly and consistently to the reporting periods presented.

Income and expenses are recognised on an accruals basis. They are recorded and reported in the period to which they may be assigned in economic terms. Premiums and discounts are accrued in accordance with the effective interest rate method and reported in the same way as accrued interest within the balance sheet item in which the underlying financial instrument is reported.

	Other[5]		Total core business		Non-core business		Deka Group		Reconciliation		Deka Group	
	Economic result										IFRS net income before tax	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	–45.3	–33.7	133.7	170.4	5.5	12.3	139.2	182.7	–3.0	8.8	136.2	191.5
	–0.2	0.2	–194.6	–66.5	–	1.3	–194.6	–65.2	–	0.1	–194.6	–65.1
	–1.5	–1.4	1,107.4	1,111.2	–	–0.2	1,107.4	1,111.0	–0.2	–0.9	1,107.2	1.110.1
	53.5[6]	–46.1[6]	303.1	180.4	13.4	20.7	316.5	201.1	70.1	46.2	386.6	247.3
	–30.8	50.5	35.2	94.5	–	–	35.2	94.5	7.5	–63.8	42.7	30.7
	–24.3	**–30.5**	**1,384.8**	**1,490.0**	**18.9**	**34.1**	**1,403.7**	**1,524.1**	**74.4**	**–9.6**	**1,478.1**	**1,514.5**
	111.3	116.0	969.4	914.6	0.7	2.8	970.1	917.4	–	–	970.1	917.4
	–	0.4	18.5	–3.9	–	–	18.5	–3.9	–	–	18.5	–3.9
	111.3	**116.4**	**987.9**	**910.7**	**0.7**	**2.8**	**988.6**	**913.5**	**–**	**–**	**988.6**	**913.5**
	–135.6	**–146.9**	**396.9**	**579.3**	**18.2**	**31.3**	**415.1**	**610.6**	**74.4**	**–9.6**	**489.5**	**601.0**
	35.7		–		–		–		–		–	
	–99.9	**–146.9**	**396.9**	**579.3**	**18.2**	**31.3**	**415.1**	**610.6**	**74.4**	**–9.6**	**489.5**	**601.0**
	–	–	0.61	0.59	0.04	0.09	0.61	0.58				
	314	393	2,013	2,383	55	97	2,039	2,440				
	–	–	256,805	240,045	–	–	256,805	240,045				
	18,468[7]	16,056[7]	123,559	141,235	777	1,109	124,336	142,344				

[5] No cost/income ratio or Group risk data are presented for the segment Other as these are deemed of limited economic informative value.
[6] This includes effects relevant for management purposes of €–10.0m (previous year: €–5.0m) related to a provision for potential losses. This is additional information provided on a voluntary basis and does not form part of the IFRS notes.
[7] In gross loan volume, participations are not allocated to the relevant segments but rather are presented separately under Other.

Estimates and assessments required as part of accounting and measurement under IFRS are carried out in accordance with the respective standard on a best estimate basis and are continually re-evaluated. They are based on empirical values and other factors, including expectations regarding future events that appear reasonable under the given circumstances. Estimation uncertainties arise in connection with – inter alia – loan loss provisions, the impairment test for goodwill, and provisions and other liabilities. Where material estimates were required, the assumptions made are explained in detail below in the notes on the relevant line items.

In accordance with IFRS 7 “Financial Instruments: Disclosures”, disclosures about the nature and extent of risks arising from financial instruments, which are also a component of the notes to the consolidated financial statements, are, with the exception of the breakdown by remaining maturity (see note [70]), presented in the risk report as a part of the Group management report.

5 Consolidation principles

Subsidiaries are defined as companies that are controlled by DekaBank, either directly or indirectly. Assessment of whether DekaBank, as the parent company, is able to exert control over an entity, and hence whether that entity must be consolidated, is carried out by considering the following three criteria, all of which must be fulfilled:

- DekaBank has power over the entity, directly or indirectly, by means of voting rights or other contractual rights and hence has the current ability to direct the entity’s relevant activities.
- DekaBank is exposed, or has rights, to variable returns from its involvement with the entity.
- DekaBank is currently able to use its power over the entity to affect these variable returns.

If the Deka Group holds more than half of the relevant voting rights to an entity, either directly or indirectly, and these voting rights currently enable the Deka Group to direct relevant activities within that entity, then control is assumed. Potential voting rights are also taken into account when determining whether the relationship involves control, provided such voting rights are deemed to be substantial.

Under certain circumstances it is possible for control over another entity to exist even when the Group does not hold the majority of the relevant voting rights. Examples of this may include the presence of one or more contractual agreements or legal provisions. In assessing whether or not an entity must be consolidated, it is therefore necessary to take account of all the facts and circumstances involved. This includes considering the purpose and the relevant activities of the entity concerned. This is particularly true in the case of structured entities designed such that voting rights or comparable contractual rights are not the dominant factor in determining who controls the entity. For this reason, the Deka Group also includes structured entities (investment funds, loan financing operations and securitisation companies) when considering which entities must be consolidated.

In assessing whether or not control exists, it is also necessary to verify, where appropriate, whether a principal-agent relationship exists. In this case, the right to control the entity would be held by an additional contractual party (agent) which exercises it on behalf of a principal, meaning that the principal in fact controls the entity.

The Deka Group has the right to exercise control over investment funds it sets up and administers when it acts as an agent for all investors in these investment funds. As part of the start-up financing process, the Deka Group holds units in the Group's own investment funds in order to make liquidity available to them. In such cases DekaBank may exercise control if a significant proportion of the variable returns flow to it as an investor in the investment funds.

An entity is consolidated from the point in time at which the Group obtains control through the relevant majority voting rights or other contractual agreements, and ceases to be consolidated when there is no longer any potential for it to be subject to the Group's control. Subsidiaries are not consolidated if they are of minor significance for the presentation of the Group's assets, financial position and results of operations.

DekaBank reviews its consolidation decisions at the end of every financial year, as well as on other occasions if required. The requirement for the Group to consolidate an entity is reviewed if voting rights or other decision-making rights arise as a result of contractual agreements or changes in financing, ownership or capital structures.

Changes in the percentage ownership of a subsidiary that do not result in a loss of control should be regarded as transactions between shareholders and recognised within retained earnings accordingly.

If the Deka Group loses control of a subsidiary, the subsidiary's assets and liabilities, and the carrying value of any non-controlling interests in the subsidiary that may exist, are derecognised. Any consideration received and the shares in the subsidiary that are retained are recognised at fair value. If a difference arises as a result of this accounting treatment, and this difference is attributable to the parent company, it is presented as a profit or loss within consolidated profit or loss. Other changes in equity with no impact on profit or loss recorded in previous periods are transferred to consolidated net profit or, if required by other IFRS, to retained earnings.

An associate is a company over which DekaBank exercises a significant influence. As a rule, significant influence is presumed if DekaBank holds between 20.0% and 50.0% of the voting rights, either directly or indirectly. Potential voting rights – either currently exercisable or convertible – are also taken into account in assessing whether significant influence exists.

Where less than 20.0% of the voting rights are held, the assessment of whether or not significant influence exists includes other factors, such as whether the Deka Group has the option to be represented on the management or supervisory committees of the relevant company, or whether there are significant transactions between the Deka Group and the relevant company. Where such rights are held by other companies, it is possible that DekaBank may be unable to exercise significant influence, even if it holds more than 20.0% of the voting rights.

The only type of joint arrangements, as defined in IRFS 11, that exist at the Deka Group take the form of joint ventures. Joint ventures are defined as arrangements where the parties exercise joint control through voting rights that are available to them on an equal basis. Joint ventures and associates are included in the consolidated financial statements using the equity method, unless they are of minor significance for the presentation of the assets, financial position and results of operations of the Group. Where a company valued under the equity method uses different accounting policies, appropriate adjustments are made in line with IFRS rules for consolidated financial statements by means of a separate calculation.

Subsidiaries are consolidated using the acquisition method, whereby all assets and liabilities of the subsidiary are stated at fair value at the date of acquisition or the date the Group obtains a controlling interest. Any positive difference between the acquisition price and the fair value of the assets and liabilities acquired is reported under intangible assets as goodwill. Goodwill is tested for impairment at least once a year, or more frequently if there are indications of a possible decrease in value. If it is established that goodwill is impaired, the goodwill is written down to the lower value (see note [47]). Where third parties hold minority interests in the equity or earnings of subsidiaries of the Bank, these are reported separately as minority interests under equity or as minority interests in the statement of profit or loss and other comprehensive income. Where third parties hold immaterial minority interests in investment funds and partnerships, and those third parties have a right to return their holdings at any time, the minority interests constitute debt capital from the Group's perspective and are thus reported under other liabilities.

Intra-Group receivables and liabilities are eliminated on consolidation, as are expenses, income and intercompany profits or losses arising from intra-Group financial and services transactions.

DekaBank's consolidated financial statements have been prepared in accordance with standard accounting policies throughout the Group.

The subsidiaries (affiliated companies and structured entities) included in the consolidated financial statements, as well as the subsidiaries (affiliated companies and structured entities) not included in the consolidated financial statements on the grounds that they are not material, and joint ventures and associates, are shown in the List of shareholdings (see note [79]).

6 Scope of consolidation

Changes during the 2016 reporting year arose from the acquisition of S Broker, as a result of which the subsidiaries S Broker AG & Co. KG, Wiesbaden, and S Broker Management AG, Wiesbaden, together with the two structured entities S Broker 1 Fonds and Masterfonds S Broker were included in the scope of consolidation for the first time as at 30 June 2016. The subsidiary bevestor GmbH, Frankfurt am Main, began operating in the 2016 reporting year and was therefore included for the first time in the consolidated financial statements. The subsidiaries ExFin AG i.L., Zurich (liquidation), Roturo S.A., Luxembourg (merger) and DKC Deka Kommunal Consult GmbH, Düsseldorf (sale), were deconsolidated. The assets of the subsidiary Deka Grundstücksverwaltungsgesellschaft I (GbR), Frankfurt am Main were transferred to the parent company with effect from 31 December 2016.

For detailed information on the composition of the Group, please see note [77] or the list of shareholdings in Note [79].

Company acquisitions

With effect from 30 June 2016, DekaBank increased its interest in S Broker AG & Co. KG (S Broker) to 100% by purchasing all shares held by third parties (69.4%).

S Broker is the central online broker within the *Sparkassen-Finanzgruppe* and is licensed as a bank under Section 1 (1) KWG. The aim of the transaction is to improve the focus and integration of online securities activities of the *Sparkassen-Finanzgruppe* under the umbrella of DekaBank. The acquisition strengthens DekaBank's position as the *Wertpapierhaus* for the savings banks.

At the time of the business combination, DekaBank paid the former limited partners a purchase price of €16.0m for 69.4% of the shares. When determining the purchase price allocation, a net asset value of €58.6m was calculated. Taking into account the carrying amount of the parent's investment of €7.0m for the shares already held (30.6%), this resulted in negative goodwill from the acquisition in the amount of €35.6m as at 30 June 2016, which was recognised in the statement of profit or loss and other comprehensive income. This is based essentially on the identified net assets, in particular the market values of own investments, and on the use and development of the IT platform.

The identifiable assets acquired and liabilities assumed are shown in the breakdown below:

in €m	
Total purchase price	**23.0**
Identifiable assets acquired and liabilities assumed	
Due from banks	125.4
Due from customers	23.0
Fixed-interest securities and investment fund units	530.8
Intangible assets	3.6
Other assets	6.6
Due to banks	9.8
Due to customers	602.9
Provisions	2.6
Other liabilities	15.5
Total identified net assets	**58.6**
Negative goodwill	**–35.6**

Since 1 July 2016, S Broker has generated earnings of €25.4m (interest, commission and other operating income) and net income after tax of €0.4m, which was taken into account accordingly in the statement of profit or loss and other comprehensive income.

7 Financial instruments

All financial assets and liabilities, including all derivative financial instruments, are recognised on the balance sheet pursuant to IAS 39. Spot purchases and sales (regular way contracts) are recognised on the settlement date. Valuation effects from financial instruments measured at fair value which have a settlement date after the reporting date are recognised in profit or loss and reported under other assets or other liabilities.

Financial assets are derecognised if the contractual rights arising from the asset lapse or have been transferred to parties outside of the Group, such that the risks and rewards have been substantially transferred. Financial liabilities are derecognised when the principal has been repaid in full.

Financial instruments are measured at fair value at the date of acquisition. Subsequent measurement of financial assets and liabilities is governed by the categories to which they are allocated at the date of acquisition, in line with IAS 39.

Financial assets or liabilities at fair value through profit or loss

There is a distinction within this category between financial instruments classified as held for trading and those that at the date of acquisition are irrevocably designated at fair value through profit or loss. Financial assets and liabilities in this category are measured at fair value with an impact on profit or loss.

Financial instruments classified as held for trading are firstly those that have been acquired with the intention of achieving profits from short-term price fluctuations or from the dealer's margin. Secondly, this sub-category includes derivatives unless they are hedging instruments.

The designated at fair value sub-category arises from the application of the fair value option in IAS 39. This sub-category comprises those financial assets and liabilities which are managed as a unit on a fair value basis in accordance with the Bank's documented risk management strategy. Both the risk and the results thereof are determined on the basis of fair values and reported to the Board of Management. Exercising the fair value option results in this case in the harmonisation of the economic management and the presentation of assets, financial position and results of operations.

In addition, the fair value option is exercised for financial instruments in order to avoid the potential obligation to separate embedded derivatives and to eliminate or significantly reduce recognition or measurement discrepancies (accounting mismatches). These financial instruments are also allocated to the designated at fair value sub-category at the date of acquisition.

Loans and receivables

Loans and receivables include all non-derivative financial instruments that have fixed or determinable payments and are not listed on an active market. A precondition for this is that the corresponding financial instruments are not allocated to the categories financial assets or liabilities at fair value through profit or loss or available for sale at the date of acquisition. Loans and receivables are measured at amortised cost. At each balance sheet date, and at other times if there are indications of potential impairment, loans and receivables are tested for impairment and any necessary provisions are recognised accordingly (see note [15]). Any reversals to impairment are recognised through profit or loss. The maximum limit for the write-back is the amortised cost that would have arisen at the valuation date without the impairment. Securities in the loans and receivables category are reported under financial investments.

Held to maturity

In principle, financial assets with fixed or determinable payments and a fixed term to maturity can be allocated to the held to maturity category. However, this is contingent on the financial instruments having been acquired with the intention and ability to hold them until maturity. Assets held to maturity are measured at amortised cost. At each balance sheet date, and at other times if there are indications of potential impairment, held-to-maturity financial instruments are tested for impairment and are written down where necessary (see note [18]). Reversals of impairments are recorded through profit or loss. The maximum limit for the write-back is the amortised cost that would have arisen at the valuation date without the impairment. Securities in the held to maturity category are reported under financial investments.

Available for sale

The available for sale category includes all non-derivative financial instruments that have not already been allocated to other categories. Financial instruments in the available for sale category are measured at fair value. The valuation result is recognised in the statement of profit or loss and other comprehensive income under other comprehensive income (OCI). Where financial instruments are impaired as a result of a decline in creditworthiness, or where valuation results are realised, the cumulative result previously reported under other comprehensive income (OCI) is reclassified from equity to profit or loss. Subsequent reversals of impairments that have previously been recorded are recognised in profit or loss for debt securities, and in other comprehensive income (OCI) in the case of equity instruments. Securities in the available for sale category are reported under financial investments.

Other liabilities

Other liabilities comprise financial liabilities, including securitised liabilities, unless these are designated at fair value through profit or loss. They are carried at amortised cost.

Loan commitments where the resultant loan receivables are to be sold, or for which the fair value option is to be exercised, are measured at fair value through profit or loss in accordance with IAS 39. All other loan commitments are recorded off the balance sheet in accordance with the provisions of IAS 37. If the creditworthiness analyses conducted indicate that a default by the borrower is probable, loan loss provisions are recognised based on the best estimate of the amount likely to be required.

Financial guarantees are reported using the net method, both at initial recognition and in subsequent measurements, in accordance with IAS 39.47c. At the time the contract is concluded, the financial guarantee is measured at fair value, which comprises the present value of the performance commitments that are expected to be assumed, offset by the present value of future fees. Under market terms this is normally zero.

8 Fair value measurement of financial instruments

Fair value is deemed to be the amount that would be received on the sale of an asset or paid for the transfer of a liability in an arm’s length transaction between market participants at the measurement date.

The fair value of financial instruments is determined on the basis of market prices or observable market data as at the reporting date and generally recognised valuation models.

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 estimates made by the Bank in the valuation. The Bank is also responsible for selecting 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 be likely to value the financial instrument.

Where bid and ask prices are available for assets and liabilities, the provisions of IFRS 13 state that the price to be used to determine the fair value is that which best reflects the fair value within the bid-ask spread, with the use of mid-market pricing being an acceptable valuation convention. DekaBank generally measures financial instruments at mid-market prices. For illiquid financial instruments assigned to level three of the fair value hierarchy, bid-ask adjustments are taken into account.

Furthermore, the Bank takes Credit Value Adjustments (CVAs) or Debit Value Adjustments (DVAs) into consideration when measuring OTC derivatives in order to allow for its own credit risk or that of counterparties, 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. The Deka Group takes a Funding Valuation Adjustment (FVA) into account, which represents 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.

9 Hedge accounting

In accordance with the provisions of IAS 39, derivatives are essentially classified as held for trading and measured at fair value. The valuation result and net interest income are reported in trading profit or loss. The Deka Group enters into derivatives both for trading purposes and hedging purposes. Derivatives entered into for hedging purposes may be treated as a hedge in accordance with IAS 39 (hedge accounting) under certain conditions. Derivative financial instruments that are used for economic hedging and do not meet the hedge accounting requirements of IAS 39 are treated in the same way as derivatives held for trading purposes and reported under financial assets or financial liabilities at fair value. Net interest income from economic hedging transactions is treated in the same way as interest from hedging derivatives within the meaning of IAS 39 (hedge accounting) and reported under net interest income. Valuation results from economic hedging derivatives are recorded in profit or loss on financial instruments designated at fair value.

In order to apply hedge accounting, the hedges must be documented individually at the date of their inception. The main items to be documented are the identification of the underlying and hedge transactions as well as the type of risk hedged. IAS 39 additionally requires proof of an effective hedge. The effectiveness of the hedging relationship must be determined for each hedge both at the start and during the term of the hedge.

As part of its asset-liability management, DekaBank uses fair value hedges as defined in IAS 39. Interest rate swaps used to hedge the lending, securities and issuing business against interest rate risks and which meet hedge accounting criteria are designated as hedging instruments. Microhedges may only be designated as hedges where the hedging instruments are able to offset one or more similar underlying transactions.

For fair value hedges, changes in the value of the underlying transaction that are attributable to the hedged risk are included in the result of fair value hedges along with the offsetting change in the fair value of the hedging transaction pursuant to IAS 39. Derivatives used for hedging are shown on the balance sheet under positive or negative market values from derivative hedging instruments. In principle, the effectiveness of the fair value hedges is monitored on a daily basis using regression analysis. A hedge is deemed to be effective if, throughout the entire term of the hedge, the ratio of changes in value of the underlying and hedge transaction is between 0.80 and 1.25. If a hedge is no longer effective, it is cancelled. The prospective effectiveness measurement is performed using the critical term match method.

DekaBank also applies the rules on cash flow hedge accounting. The transactions underlying cash flow hedges are future cash flows from foreign currency loans that are recognised in profit or loss and are hedged against currency risks. Spot foreign exchange transactions with rolling currency swaps are designated as hedging instruments.

In a cash flow hedge, the effective portion of the change in fair value of the hedging derivative is reported under equity (revaluation reserve for cash flow hedges) in other comprehensive income (OCI). The hedging instruments are shown on the balance sheet under positive or negative market values from derivative hedging instruments. The amounts recorded in the revaluation reserve are taken to profit or loss during the period in which the hedged cash flows are also recognised in profit or loss. The earnings components attributable to the ineffective portion of the hedge are recorded in profit or loss.

Daily reporting, which compares the expected future cash flows from the underlying transactions with the cash flows from the hedging transactions, is used to measure the prospective effectiveness. The cash flow hedge is deemed to be effective if the future cash flows from the hedged transactions at least offset the cash flows from the hedges. If the future cash flows change (e.g. through unscheduled repayments or interest payment dates on loans), the hedge is adjusted immediately, ensuring that it remains effective. To demonstrate the effectiveness of hedges retrospectively, monthly checks are conducted to determine whether the cash flows actually received correspond to the cash flows expected from the original hedge.

10 Structured products

Structured products are financial instruments composed of a host contract and one or more derivative financial instruments (embedded derivatives), whereby the embedded derivatives constitute an integral part of the contract and cannot be traded separately. For accounting purposes, under IAS 39 embedded derivatives must be separated from the host contract and accounted for on the balance sheet as independent derivatives under the following conditions:

- the structured financial instrument is not already measured at fair value through profit or loss,
- the economic characteristics and risks of the embedded derivative do not show any close relationship with the economic characteristics and risks of the host contract, and
- the contractual standards of the embedded derivatives, if they were treated as independent financial instruments, would meet the criteria for a derivative.

In the Deka Group, financial assets required to be separated are recorded in the designated at fair value category and reported on the balance sheet under financial assets at fair value. There were no banking book portfolios subject to separation at the reporting date. Structured trading issues are categorised as held for trading.

11 Currency translation

Currency translation in the Deka Group is carried out in accordance with IAS 21. All monetary foreign currency items are converted using the mean spot rate as at the reporting date. Non-monetary items are converted in accordance with their applicable valuation standard: non-monetary items valued at amortised cost are converted at the rate for the acquisition valuation (historical rate). Non-monetary items carried at fair value are converted at the current reporting date rate in the same way as monetary items. The result from currency translation is recognised in profit or loss under trading profit or loss (for the trading book portfolio) or in profit or loss from financial instruments designated at fair value (for the banking book portfolio). In principle, income and expenses are converted at the mean spot rate on the day on which they are recognised in profit or loss.

The financial statements of foreign subsidiaries prepared in a foreign currency are converted using the modified closing rate method. All assets and liabilities are converted at the rate prevailing on the reporting date. The items in the statement of profit or loss and other comprehensive income are converted using the arithmetic mean of the month-end exchange rates during the reporting year. With the exception of the revaluation reserve (converted using the rate prevailing on the reporting date) and profit or loss for the year (from the statement of profit or loss and other comprehensive income), equity is converted on the basis of historical exchange rates at the time of acquisition by the Group. The resulting translation differences are posted under equity in the currency translation reserve.

12 Genuine repurchase agreements and securities lending transactions

The Deka Group engages in both genuine securities repurchase agreements and securities lending transactions.

Genuine repurchase agreements are contracts transferring securities in return for a consideration, in which it is agreed at the same time that the securities must subsequently be transferred back to the pledgor in return for payment of a sum agreed in advance. The pledgor continues to account for the transferred securities in the previous measurement category, as the principal risks and rewards of ownership are not transferred. A liability for the pledgor or a receivable for the pledgee is accounted for in the amount of the cash sum received or paid, respectively. Provided the IAS 32 netting criteria are met, receivables and liabilities from genuine repurchase agreements are offset against one another and recorded on the balance sheet on a net basis under assets due from banks or customers, or liabilities due to banks or customers.

The term “securities lending” means transactions where securities are transferred by the lender to the borrower with the obligation that the borrower, upon expiry of the agreed time, will transfer back securities of the same type, quality and quantity and will pay a consideration for the term of the loan. The securities loaned are treated for accounting purposes in the same way as genuine repurchase agreements. Collateral must generally be provided for securities lending transactions. Cash collateral is reported on the lender’s balance sheet as a liability and in the balance sheet of the borrower as a receivable. Collateral provided by the borrower in the form of securities is still carried in the accounts of the borrower.

Lending and repurchase agreements are carried out under the conditions usual for the market. Transactions are either subject to the clearing conditions of the respective central counterparty, or are conducted using the standard German or international framework agreements. The securities transferred may in principle be resold or re-pledged by the recipient, provided no contractual agreement or regulation exists that would prevent this. In the event of the sale of borrowed securities or collateral, the resulting short position is reported under financial liabilities at fair value.

If transactions have been undertaken for trading purposes, income and expenses from repurchase agreements and from securities lending transactions are shown under trading profit or loss. If the fair value option is applied, the transactions are reported under profit or loss from financial instruments designated at fair value.

13 Lease accounting

The decisive factor for the classification and consequently the accounting treatment of leases is not the legal title to the leased item but primarily the economic content of the lease agreement: if essentially all risks and rewards associated with the legal title to the leased item are transferred to the lessee, the transaction will be classified as a finance lease. All other cases are deemed to be operating leases.

The Deka Group as lessee

The rental and lease agreements concluded by the Deka Group as lessee are operating leases. The property, plant and equipment to which the operating leases relate are accordingly not reported on the balance sheet. The rental and lease instalments payable by the Deka Group are recorded as administrative expenses. Lease payments made in advance are recognised as prepayments for the correct accounting period and shown in other assets.

The Deka Group as lessor

As at the reporting date, there are no leases in place where companies in the Deka Group act as lessor.

14 Receivables

The items due from banks and due from customers principally include loans granted, non-negotiable bearer and registered bonds, demand deposits, call money and time deposits. Paid cash sums and cash collateral from genuine securities repurchase agreements or securities lending transactions are also reported as receivables. Under IAS 39, the amounts due are categorised as loans and receivables (see also note [7]). Amounts due that are classified as loans and receivables are reported on the balance sheet at amortised cost less any loan loss provision. Income from interest payments and the sale of receivables is reported in net interest income, apart from interest payments in respect of receivables held for trading purposes (for portfolios in the trading book), which are reported in trading profit or loss. The measurement rules set out in note [9] apply to receivables secured as part of fair value hedges.

15 Provisions for loan losses

Provisions for loan losses for amounts due from banks and customers are deducted from the amounts shown under assets. For sureties and guarantees, provisions are recognised for the lending business.

If there is doubt that a receivable is recoverable, this is taken into account through the recognition of provisions for loan losses. If it is virtually certain that further payments will not be paid, the receivable is classified as irrecoverable. An irrecoverable receivable which has already been written down is written off utilising the provision for loan losses. If there is no specific provision, the receivable is written off directly and charged to profit or loss. 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 carrying value of the receivable.

Loan receivables are checked individually for impairment. If impairments are identified, specific provisions are recognised in the corresponding amount. In the case of receivables for which there are no specific provisions, the default risk is taken into account by recognising collective provisions. The Deka Group does not create general provisions.

Specific provisions are recognised to take account of acute default risks if it is likely, based on fulfilment of impairment criteria, that not all contractually agreed payments of interest and principal can be made. Situations where potential impairments are assumed include the following:

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

The amount of the provision corresponds to the difference between the carrying value of a receivable and the present value of the estimated future cash flows (recoverable amount), discounted using the original effective interest rate and taking into account the fair value of the collateral.

As the specific provision is determined based on the net present value of the estimated future cash flows, if payment expectations remain the same, there will be an effect from the change in present value (unwinding) as at the subsequent reporting date. In accordance with IAS 39 AG 93, the change in present value must be recorded as interest income in the statement of profit or loss and other comprehensive income.

Interest from impaired loans continues to be reported in net interest income. As a result of the immaterial difference between the change in present value and the actual nominal interest received, interest income from unwinding is not recorded in profit or loss.

The collective provisions for creditworthiness risks reflect the assumptions concerning impairments of the loan and securities portfolio that have already occurred at the reporting date but have not yet become known. The assessment base includes financial instruments in the loans and receivables and held to maturity categories. Collective provisions are determined taking borrower ratings, counterparty default history and current economic developments into account.

Transfer risk is taken into account by recognising collective provisions for country risks. Collective provisions for country risks are based on a number of factors, including an internal rating system that incorporates current and historical economic, political and other data and categorises countries by risk profile.

Impairments are recorded in profit or loss using provisions or direct write-downs, as are reversals of provisions and income received on written-down receivables. They are reported in the statement of profit or loss and other comprehensive income under provisions for loan losses.

At DekaBank, securitised instruments are primarily categorised as designated at fair value and are measured at fair value through profit or loss accordingly. Securitised instruments allocated to the loans and receivables category are regularly tested for impairment. There were no indications of impairment as at the reporting date.

16 Financial assets and financial liabilities at fair value

Held for trading

Financial instruments in the held for trading sub-category are reported under financial assets and financial liabilities at fair value. These are financial instruments that have been acquired or issued with the intention of trading. All financial instruments in this category are measured at fair value through profit or loss. For derivatives with outstanding premium payments, the present value of the premium is netted against the market value of the derivative. For financial instruments that are not traded on a market, standard valuation procedures (in particular the present value method and option pricing models) are used to determine the balance sheet value. Unrealised valuation results and realised profits and losses are recorded through profit or loss in trading profit or loss. Interest income, dividend income, refinancing expenses and trading commission are also reported in trading profit or loss.

Designated at fair value

The line item financial assets or financial liabilities at fair value also includes other financial instruments allocated on initial recognition to the designated at fair value sub-category. Derivative financial instruments from economic hedges that do not meet the criteria for hedge accounting are also reported in this sub-category. Effects from fair value changes and commission are recorded in profit or loss on financial instruments designated at fair value. Interest and dividend income are reported in net interest income along with refinancing expenses and income from reinvestments.

17 Positive and negative market values from derivative hedging instruments

This item includes hedging derivatives as defined in IAS 39 (hedge accounting) with positive market values recorded as assets and negative market values recorded as liabilities on the balance sheet.

Hedging derivatives are measured at fair value using accepted valuation models based on observable measurement parameters. The valuation results for fair value hedges under hedge accounting rules are recorded through profit or loss under the item profit or loss from fair value hedges in accordance with IAS 39.

In a cash flow hedge, the effective portion of the change in fair value of the hedging derivative is reported in other comprehensive income (revaluation reserve for cash flow hedges). The amounts recorded in the revaluation reserve are taken to profit or loss, under profit or loss on financial instruments measured at fair value, during the period in which the hedged cash flow is also recognised in profit or loss.

18 Financial investments

Financial investments mainly include negotiable bonds and other fixed-interest securities, shares and other non-fixed-interest securities, shares in unconsolidated subsidiaries, joint ventures and associates, and other equity investments.

The financial investments line item comprises financial instruments in the loans and receivables, held to maturity and available for sale categories. Securities shown under loans and receivables or as held to maturity are reported at amortised cost. Financial assets in the available for sale category are reported at fair value. Interests in affiliated unlisted companies and other equity investments for which neither prices from active markets nor the factors relevant for valuation models can be reliably determined, are stated at their acquisition cost in accordance with IAS 39.46c.

Income from bonds, including that from cancelled premiums and discounts, as well as dividend income and current income from unconsolidated equity investments in affiliated companies, are posted as net interest income. Realised gains and losses are recorded in profit or loss on financial investments. After taking into account deferred taxes, valuation results from financial instruments in the available for sale category are presented under other comprehensive income (OCI).

Financial investments are regularly subject to an impairment test. A potential impairment on tradable securities in the loans and receivables, held to maturity and available for sale categories exists in principle if, as a result of a deterioration in the creditworthiness of the issuer, the market value of an instrument at the reporting date has fallen significantly below its acquisition cost or if the drop in market value is long term.

If an impairment is established, a provision must be recognised, taking account of the expected cash flows from recoverable collateral (guarantees, credit default swaps and others). Impairments are recorded through profit or loss under the item profit or loss on financial investments. For debt instruments, if the reasons for a previously recognised provision no longer apply, an impairment reversal must be recognised through profit or loss and presented under profit or loss on financial investments. In contrast, increases in the value of equity instruments that are available for sale are recognised in the revaluation reserve with no impact on profit or loss.

If the result of the impairment test shows there is no need to recognise a specific provision, the corresponding financial investments in the loans and receivables and held to maturity categories must be taken into account in the assessment basis for collective provisions at portfolio level. As with loans, collective provisions for creditworthiness risks on financial investments are determined using the expected loss method. No collective provisions are recognised for financial investments in the available for sale category.

Shares in associates and joint ventures are also recorded under financial investments.

Shares in associates and joint ventures are stated in the consolidated balance sheet at historical cost as at the date of establishment or when significant influence was acquired. In subsequent years, the equity value shown on the balance sheet is adjusted by the proportionate changes in equity of the associate. The proportionate annual net income of the associate is reported in profit or loss on financial investments. Profits and losses on transactions with companies valued under the equity method are eliminated pro rata, based on the percentage shareholding, as part of the elimination of intercompany profits or losses. In the event that an asset no longer falls within the scope of consolidation, the adjustment to the value is carried out against the equity reported for the respective equity investment.

If there are indications of an impairment of the shares in a company valued in accordance with the equity method, these are subject to an impairment test and if necessary, the equity value of the shares is written down. Revaluations take place if the reasons for impairment no longer apply, using write-backs up to the recoverable amount, but only up to a maximum of the amount of the carrying value that would have been applicable in the previous periods without the impairment losses. Impairment write-downs and write-backs are recognised through profit or loss under profit or loss on financial investments.

19 Intangible assets

Intangible assets comprise goodwill acquired as part of business combinations, as well as other intangible assets and software that has been purchased or developed in-house.

Goodwill arises on the acquisition of subsidiaries if the cost of acquisition exceeds the Group’s share of the acquired company’s net assets. Goodwill is reported at cost as at the date of acquisition and is not subject to any regular amortisation. Subsequent measurement is carried out at acquisition cost less all accumulated write-downs for impairment. Goodwill is subject to an impairment test each year, or more frequently if there are indications of a possible decrease in value. For the purposes of the impairment test, goodwill is allocated to a cash-generating unit. If an impairment is identified during the test, the goodwill is written down.

Other intangible assets acquired as part of the business combination are amortised on a straight-line basis over their expected useful lives. Where there are signs that the expected benefit is no longer in evidence, the asset is written down.

Intangible assets acquired in return for a consideration are stated at amortised cost. Software developed in-house is capitalised at production cost where it meets the recognition criteria under IAS 38. The capitalised costs primarily include personnel expenses and expenses for external services. Software developed in-house or purchased is, in principle, amortised over four years on a straight-line basis. Where there are signs that the expected benefit is no longer in evidence, the asset is written down.

Scheduled amortisation and write-downs on intangible assets are recorded under administrative expenses in the statement of profit or loss and other comprehensive income.

20 Property, plant and equipment

In addition to plant and equipment, the property, plant and equipment line item includes technical equipment and machinery. Property, plant and equipment are stated at amortised cost. Subsequent expenditure for property, plant and equipment is capitalised if an increase in the future potential benefit can be assumed. All other subsequent expenditure is recorded as an expense. Items of property, plant and equipment are depreciated on a straight-line basis over the following periods in accordance with their estimated useful economic lives:

in years	**Useful life**
Plant and equipment	2 – 15
Technical equipment and machines	2 – 10

For materiality reasons, economic assets as defined in Section 6 (2) of the German Income Tax Act (*Einkommensteuergesetz* – EStG) are written off in the year of acquisition in accordance with tax regulations.

Impairment losses in excess of amortised cost are immediately recognised as write-downs. Scheduled depreciation and write-downs for impairment are recorded under administrative expenses, while gains and losses on the disposal of property, plant and equipment are recorded as other operating income.

21 Other assets

This balance sheet item includes assets which, when considered separately, are of minor importance and cannot be allocated to any other line item on the balance sheet. Receivables are measured at amortised cost. The positive valuation effects from regular way financial instruments measured at fair value, with settlement dates after the reporting date, are also reported under other assets.

22 Income taxes

As DekaBank is treated for tax purposes as an atypical silent partnership, DekaBank only incurs 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 proportion of taxable income attributable to atypical silent partners is 45.6%. This results in a combined tax rate of 24.68% for the companies in the DekaBank tax 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 the 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 economic point of view also bears this part of the tax expense. 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 31.90%.

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

Deferred income tax assets and liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities on the IFRS balance sheet and the tax balance sheet. They are calculated based on the tax rate projected for the date they will be reversed. Deferred tax liabilities are posted for temporary differences resulting in tax charges on reversal. If tax savings are projected when temporary differences are settled and it is probable they will be utilised, deferred tax assets are recorded. Actual income tax assets and liabilities and deferred tax assets and liabilities are stated net in each case, without discounting. Deferred taxes on temporary differences that have arisen with no effect on profit or loss are recorded in the revaluation reserve such that they also have no impact on profit or loss.

For loss carry-forwards chargeable to tax, deferred tax assets are recorded if it is probable that they will be utilised. Loss carry-forwards in Germany can be carried forward for an unlimited period. Foreign loss carry-forwards, which cannot be carried forward for an unlimited period, are shown by maturity accordingly. Deferred tax assets arising from temporary differences and loss carry-forwards are tested for impairment at each reporting date.

23 Liabilities

Financial liabilities are accounted for on the balance sheet at amortised cost if they come under the other liabilities category. Liabilities in the category liabilities at fair value through profit or loss are measured at fair value through profit or loss. The valuation guidelines described in note [9] apply to liabilities which have been designated as hedging transactions in the context of hedge accounting.

24 Provisions for pensions and similar commitments

The Deka Group offers employees various types of retirement pension benefits. These include both defined contribution plans and defined benefit plans.

For defined contribution plans, a set amount is paid to an external provider (such as Sparkassen Pensionskasse, BVV and direct insurance companies). In accordance with IAS 19, the Deka Group does not recognise any provisions for such commitments.

For defined benefit plans, the scope of obligation is calculated by independent actuaries. In these cases, at each closing date the present value of the pension entitlements earned (defined benefit obligation) is determined using the projected unit credit method and compared with the fair value of the plan assets. If the calculation results in a potential asset, the asset recognised is restricted to the present value of any economic benefit. The net interest expense (income) on the net liability (net asset) arising from defined benefit obligations to be recognised in profit or loss in the current reporting period is determined by applying the actuarial interest rate that was used to measure defined benefit obligations at the beginning of the period. Expected changes in the net liability (net asset) occurring during the year as a result of contribution and benefit payments are taken into account. Revaluations of the net liability (net asset) are recognised directly in other comprehensive income (OCI). The revaluation includes actuarial gains and losses, income from plan assets (excluding interest) and the effect of any asset ceiling (excluding interest).

As well as final salary plans and general contribution schemes, the defined benefit obligations of the Deka Group include unit-linked defined contribution plans. The final salary plans and general contribution schemes involve both individual commitments for members of the Board of Management and executive staff, and collective commitments for the general workforce. These guarantee lifelong retirement, survivors' and disability pensions. Under the unit-linked defined contribution pension commitments, contributions are made by both employer and employee and are invested mainly in the Deka Group's investment funds. When benefits become due, the employee is entitled to a contractually agreed minimum benefit or to the market value of the underlying fund units if higher.

Plan assets were created for the company retirement pensions of the Deka Group 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 unit-linked defined contribution plans consist primarily of fund assets allocated to each individual employee and other assets to cover the biometric risks arising from benefits becoming due early and the subsequent 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 integrated asset-liability assessment.

Similar commitments include commitments for early retirement and transitional payments. These are also valued actuarially and a provision is created in the amount of the present value of the commitment. When accounting for commitments similar to pensions, in principle no actuarial profits or losses arise and the provision shown in the financial statements therefore corresponds to the present value of the commitment. Furthermore, employees of the Deka Group also have the option of paying into working hours accounts. These accounts are maintained in money and, like the defined benefit plans, are covered by plan assets in Deka Trust e.V. The amount carried on the balance sheet is the difference between the extent of the commitments and the fair value of the plan assets.

25 Other provisions

Provisions for uncertain liabilities to third parties and imminent losses from pending transactions are recognised on a best estimate basis in the amount of the expected liability. Risks and uncertainties are taken into account when determining these provisions, as well as all relevant knowledge relating to the liability. If the interest effect has a material impact, long-term provisions are discounted using a market rate appropriate to the residual term and stated at the present value of the liability. A pre-tax discount rate is used that reflects current market expectations relating to the interest effect and the risks specific to the liability. Allocations and reversals are carried out via the line item in the statement of profit or loss and other comprehensive income that corresponds to the provision in terms of content. Provisions for creditworthiness risks in off-balance sheet lending transactions are charged to provisions for loan losses and reversed in the same line item.

26 Other liabilities

Other liabilities include liabilities and accruals which are not individually material and cannot be allocated to any other line item on the balance sheet. They are measured at amortised cost or at their settlement amount.

27 Subordinated capital

Subordinated capital comprises subordinated liabilities, profit-participation items and typical silent capital contributions. In the event that DekaBank becomes insolvent or is liquidated, subordinated capital may only be repaid after all non-subordinated creditors have been repaid. In accordance with the provisions of IAS 32, subordinated capital must be recognised as debt because of the contractual termination right associated with it, regardless of the likelihood that this right will be exercised. Subordinated capital is in principle shown at amortised cost. For subordinated liabilities that are hedged against interest rate risks by a fair value hedge as set out under IAS 39, changes in fair value attributable to interest rate risks must also to be taken into consideration.

28 Atypical silent capital contributions

Atypical silent capital contributions are equity shown on the balance sheet in accordance with German commercial law. Under IAS 32, atypical silent capital contributions must be treated as debt capital, since atypical silent partners have a contractual termination right.

Atypical silent capital contributions are stated on the balance sheet at nominal value. The dividend distribution on subscribed capital is used as the basis for calculating the distribution to atypical silent partners. There is also an entitlement to deduct amounts in respect of taxation. The distribution is disclosed as a separate line item – interest expenses for atypical silent capital contributions – below net income before tax. The allocable tax is disclosed as a component of the tax expense (see note [22]).

29 Equity

Subscribed capital is the capital paid in by shareholders in accordance with the Bank's statutes. Capital reserves include premiums from the issue of shares in the company in accordance with the provisions of the Bank's statutes.

The sub-heading additional capital components comprises Additional Tier 1 bonds issued by the Bank. In accordance with the provisions of IAS 32, Additional Tier 1 bonds are recognised on the balance sheet as equity capital, since they have no maturity date, payments of interest can be totally or partially at the discretion of the issuer and the creditor has no cancellation entitlement.

Reserves from retained earnings are broken down into statutory reserves, reserves required under the Bank's statutes and other reserves. Other reserves from retained earnings include retained profits from previous years. In addition, the effects of applying IFRS for the first time are also shown in other reserves from retained earnings, with the exception of valuation effects for financial instruments in the available for sale category.

Revaluations of net liabilities (net assets) arising from defined benefit obligations, including the associated deferred taxes, are shown within the revaluation reserve. Revaluations consist mainly of actuarial gains and losses, and income from plan assets (excluding interest).

The effects of fair value measurement on financial instruments in the available for sale category are also stated in the revaluation reserve through other comprehensive income, after taking account of the applicable deferred taxes. Gains or losses are not recorded through profit or loss until the asset is sold or written down due to impairment.

The effective portion of the change in the fair value of hedging instruments arising from cash flow hedges is also reported in the revaluation reserve after taking account of any applicable deferred tax. The amounts recorded in the revaluation reserve are taken to profit or loss during the period in which the hedged future cash flows are also recognised in profit or loss. The earnings components attributable to the ineffective portion of the change in fair value of hedging instruments are recorded in profit or loss.

The differences arising from the conversion of financial statements of foreign subsidiaries prepared in a foreign currency are posted to the currency translation reserve.

Minority interests, if these exist, are shown as a separate sub-item under equity.

Notes to the statement of profit or loss and other comprehensive income

30 Net interest income

In addition to interest income and expenses, this item includes pro-rated reversals of premiums and discounts from financial instruments. Net interest income from items in the trading book and the associated refinancing expenses are not included as they are reported in trading profit or loss. Under IAS 32, silent capital contributions are classified as debt and the payments to typical silent partners are reported in interest expenses.

€m	2016	2015	Change
Interest income from			
Lending and money market transactions	458.0	542.9	– 84.9
Interest rate derivatives (economic hedges)	153.4	211.9	– 58.5
Fixed-interest securities and debt register claims	152.6	192.7	– 40.1
Hedging derivatives (hedge accounting)	63.9	55.4	8.5
Negative interest from liabilities	45.0	1.8	43.2
Current income from			
Shares and other non fixed-interest securities	16.7	32.3	– 15.6
Equity investments and shares in affiliated companies	2.1	1.9	0.2
Total interest income	**891.7**	**1,038.9**	– 147.2
Interest expenses for			
Interest rate derivatives (economic hedges)	278.6	283.2	– 4.6
Liabilities	284.5	394.7	– 110.2
Securitised liabilities	69.7	92.7	– 23.0
Hedging derivatives (hedge accounting)	31.0	32.4	– 1.4
Subordinated liabilities and profit participation capital	36.3	34.1	2.2
Typical silent capital contributions	8.0	8.0	–
Negative interest from money market transactions and fixed-interest securities	47.4	2.3	45.1
Total interest expenses	**755.5**	**847.4**	– 91.9
Net interest income	**136.2**	**191.5**	– 55.3

A profit of €18.9 million on the disposal of receivables (previous year: €31.2m) is included under interest income from lending and money market transactions.

In the reporting year, interest amounting to €16.1m (previous year: €10.5m) was collected on impaired loans and securities.

Overall, interest income of €532.3m (previous year: €570.5m) and interest expenses of €363.8m (previous year: €417.8m) were reported for financial assets and liabilities not measured at fair value.

31 Provisions for loan losses

The breakdown of provisions for loan losses in the statement of profit or loss and other comprehensive income is as follows:

€m	2016	2015	Change
Allocations to provisions for loan losses	– 222.1	– 104.7	– 117.4
Reversals of provisions for loan losses	26.4	37.7	– 11.3
Direct write-downs on receivables	0.0	–	0.0
Income on written-down receivables	1.1	1.9	– 0.8
Provisions for loan losses	**– 194.6**	**– 65.1**	– 129.5

Movement in the risk provision for securities in the loans and receivables and held to maturity categories is reported under profit or loss on financial investments (see note [36]).

32 Net commission income

€m	2016	2015	Change
Commission income from			
Investment fund business	1,834.9	1,865.3	–30.4
Securities business	122.0	137.7	–15.7
Lending business	44.4	47.2	–2.8
Other	24.0	33.3	–9.3
Total commission income	**2,025.3**	**2,083.5**	–58.2
Commission expenses for			
Investment fund business	882.1	931.0	–48.9
Securities business	17.6	20.2	–2.6
Lending business	16.1	20.1	–4.0
Other	2.3	2.1	0.2
Total commission expenses	**918.1**	**973.4**	–55.3
Net commission income	**1,107.2**	**1,110.1**	–2.9

Commission income is measured at the fair value of the consideration received or receivable. Fees from services and performance-related commission are recognised in profit or loss when the service has been rendered or once significant performance criteria have been met. Fees for services that are rendered over a particular period are recognised accordingly over the period during which the service is rendered.

Commission income from investment fund business essentially comprises management fees, front-end loads and sales commission. In addition, performance-related remuneration and income from lump sum costs are also reported in this figure. Commission expenses for the investment fund business are largely attributable to services provided to sales partners. The vast majority of net commission income stems from trail commission, i.e. recurring commission relating to existing business. Net commission income from investment fund business therefore primarily comprises fees in accordance with IFRS 7.20c (ii).

33 Trading profit or loss

Trading profit or loss comprises sale and valuation results as well as commission from financial instruments in the held for trading sub-category. Net interest income from derivative and non-derivative financial instruments for trading book positions, together with related refinancing expenses, are also reported under this item.

€m	2016	2015	Change
Sale and valuation results	249.0	–166.5	415.5
Net interest income and current income from trading transactions	23.0	420.7	–397.7
Commission on trading transactions	–19.3	–17.9	–1.4
Trading profit or loss	**252.7**	**236.3**	16.4

34 Profit or loss on financial instruments designated at fair value

This item is principally made up of profits or losses on the disposal of financial instruments allocated to the designated at fair value sub-category, revaluation gains or losses on these, and profits or losses on derivatives in the banking book. In contrast, interest and dividend income is reported in net interest income, along with refinancing expenses, reinvestment profits from financial instruments within this sub-category and interest income or expenses from derivatives in the banking book.

€m	2016	2015	Change
Sale and valuation results	155.0	41.6	113.4
Foreign exchange profit or loss	–10.0	–7.7	–2.3
Commission	–0.1	–0.1	–
Profit or loss on financial instruments designated at fair value	**145.0**	**33.8**	111.2

In the reporting period, the valuation result from financial instruments designated at fair value included net income of €6.8m (previous year: €6.7m), which was attributable to differences in value arising from changes in the creditworthiness of own issues. It also included an expense of €4.1m (previous year: €0.0m), which originates from differences in value arising from changes in the creditworthiness of receivables designated at fair value.

The Bank calculates the change in value arising from changes in creditworthiness as the difference between the result based on full fair value measurement and the result from measurement based on swap rates for the corresponding issue currency, plus the spread which applied at the time of sale of the issue in the market for similar liabilities. The valuation result arising from changes in creditworthiness during the reporting period is calculated as the movement in this difference relative to the nominal value as at the reporting date.

35 Profit or loss from fair value hedges in accordance with IAS 39

Changes in value in the underlying transactions to which the hedged risk relates, together with fair value changes in the hedges, are reported as profit or loss from fair value hedges in accordance with IAS 39. The profit or loss from these hedges is composed as follows:

€m	2016	2015	Change
Valuation result from hedged underlying transactions	–85.7	37.2	–122.9
Valuation result from hedging derivatives	88.1	–41.3	129.4
Profit or loss from fair value hedges in accordance with IAS 39	**2.4**	**–4.1**	6.5

36 Profit or loss on financial investments

€m	2016	2015	Change
Sale and valuation results from securities	–1.6	–	–1.6
Sale and valuation results from shareholdings	–0.6	7.8	–8.4
Reversal of/allocation to risk provision for securities	–15.2	–14.3	–0.9
Write-downs arising from impairment of equity-accounted companies	–	–18.8	18.8
Write-backs arising from increase in value of equity-accounted companies	2.6	4.4	–1.8
Net income from investments valued using the equity method	1.3	2.2	–0.9
Profit or loss on financial investments	**–13.5**	**–18.7**	5.2

In the first half of 2016, a write-back of €2.6m was booked to the investment carrying value of the existing shares in S Broker AG & Co. KG of €7.0m.

37 Administrative expenses

Administrative expenses comprise personnel expenses, other administrative expenses and depreciation and amortisation. The breakdown of the respective items is as follows:

€m	2016	2015	Change
Personnel expenses			
Wages and salaries	397.3	377.7	19.6
Social security contributions	48.8	45.7	3.1
Allocation to/reversal of provisions for pensions and similar commitments	38.9	42.6	−3.7
Expenses for defined contribution plans	2.7	2.1	0.6
Other expenses for retirement pensions and benefits	0.6	1.9	−1.3
Total personnel expenses	**488.4**	**470.0**	18.4
Other administrative expenses			
Consultancy expenses	88.1	67.2	20.9
Computer equipment and machinery	75.8	63.1	12.7
Rentals and expenses for buildings	56.6	54.5	2.1
Marketing and sales expenses	40.3	46.8	−6.5
IT information services	39.2	37.9	1.3
Subscriptions and fees	38.3	37.1	1.2
Bank levy	34.4	34.8	−0.4
Lump sum for fund administration services	28.8	32.0	−3.2
Postage/telephone/office supplies	12.7	10.5	2.2
Other administrative expenses	49.4	43.3	6.1
Total other administrative expenses	**463.6**	**427.2**	36.4
Depreciation of intangible assets	15.8	17.9	−2.1
Depreciation of property, plant and equipment	2.3	2.3	–
Total depreciation	**18.1**	**20.2**	−2.1
Administrative expenses	**970.1**	**917.4**	52.7

Other administrative expenses primarily include expenses for the annual accounts, auditing costs and travel costs.

Administrative expenses include payments of €49.1m (previous year: €48.6m) on rental and lease agreements for buildings, vehicles, and plant and equipment (operating leases) where DekaBank is the lessee. The following minimum lease payments are payable under these leases in the coming years:

€m	2016	2015	Change
Up to 1 year	51.4	47.1	4.3
Between 1 and 5 years	160.8	137.6	23.2
More than 5 years	89.7	85.1	4.6

38 Other operating income

The breakdown of other operating income is as follows:

€m	2016	2015	Change
Income from repurchased debt instruments	**–22.7**	**–8.0**	–14.7
Other operating profit			
From disposal of property, plant and equipment	–	42.1	–42.1
Reversal of other provisions	24.9	3.1	21.8
Rental income	1.2	1.2	–
Other income	81.1	58.0	23.1
Total other operating profit	**107.2**	**104.4**	2.8
Other operating expenses			
Restructuring expenses	18.6	0.1	18.5
VAT from provision of intra-Group services	17.0	18.2	–1.2
Other taxes	1.3	1.1	0.2
Other expenses	23.4	42.4	–19.0
Total other operating expenses	**60.3**	**61.8**	–1.5
Other operating income	**24.2**	**34.6**	–10.4

The repurchase of the Bank's own registered and bearer bonds as well as promissory note loans raised led to a reduction in the liability (presented net). The repurchase of own issues results in the realisation of a profit or loss in the amount of the difference between the repurchase price and the book price.

Other income includes negative goodwill of €35.6m resulting from the acquisition of S Broker AG & Co. KG and income booked through profit or loss from releasing a foreign currency translation reserve in the amount of €14.9m due to the deconsolidation of the subsidiary ExFin AG i.L., Zurich, following its liquidation. It also includes administrative fees for settlement services relating to company pension scheme products amounting to €483.8 thousand (previous year: €647.9 thousand).

The restructuring expenses are due to the recognition of restructuring provisions for the strategic reorganisation of LBB-INVEST.

39 Income taxes

This item includes all domestic and foreign taxes determined on the basis of the net income for the year. Income tax expenses comprise the following:

€m	2016	2015	Change
Current tax expense in financial year	179.8	162.8	17.0
Current tax expense/income (–) in previous years	–6.3	15.0	–21.3
Current tax expense	**173.5**	**177.8**	–4.3
Effect of origination and reversal of temporary differences	–24.3	50.1	–74.4
Effects of changes in tax legislation and/or tax rate	–1.4	–	–1.4
Effect of initial recognition of deferred tax on loss carry-forwards	–0.4	–	–0.4
Prior-year deferred tax income	16.9	–13.7	30.6
Deferred tax expense	**–9.2**	**36.4**	–45.6
Total income tax expense	**164.3**	**214.2**	–49.9

The rate of tax that applies in Germany comprises a corporation tax rate of 15.0% plus a solidarity surcharge on this of 5.5% and trade tax at a rate in line with the applicable multiplier. As DekaBank is treated for tax purposes as an atypical silent partnership, this results in a combined tax rate of 24.68% (previous year: 24.68%) for the companies in the DekaBank tax group. Furthermore, atypical silent partners have a right to withdraw the portion of corporation tax expense attributable to them

(7.22%). A tax rate of 31.90% (previous year: 31.90%) is therefore applied for the measurement of deferred taxes (see note [22]). This tax rate is assumed as the expected tax rate in the reconciliation statement below. As in the previous year, the other domestic companies determined their deferred taxes at a tax rate of around 32%.

The foreign companies determine deferred taxes using the respective tax rate for the country in question. The tax rate amounts to 27.08% for the DekaBank Luxembourg tax group (previous year: 29.22%). With effect from 1 January 2017 the corporate tax rate in Luxembourg was reduced from 21.0% to 19.0%. Taking into account the surcharge for the unemployment fund and trade tax, this results in a new combined tax rate of 27.08%, which was used as the basis for determining deferred taxes. This led to an imputed tax reduction of €1.5m.

The origination or reversal of temporary differences led to deferred tax expenses of €24.3m (previous year: €50.1m). Current tax expenses for previous years relate primarily to the Luxembourg companies (€–8.0m), an adjustment to tax apportionments for previous years (€–6.2m) at DekaBank, and an offsetting adjustment (€7.6m) to a tax asset in connection with case law on Section 40a of the German Capital Investment Companies Act (*Gesetz über Kapitalanlagegesellschaften* – KAGG), also at DekaBank. The deferred tax expense relating to other periods is predominantly attributable to an adjustment to gains on equities at two special funds in connection with a tax audit.

Due to a positive forecast at a subsidiary, it was possible for the first time to take into account a tax loss carried forward – which had not been taken into account in previous years – in the calculation of deferred taxes (imputed tax reduction of €0.4m).

The following statement reconciles net income before tax with the tax expense:

€m	**2016**	**2015**	Change
IFRS – net income before tax	489.5	601.0	–111.5
x income tax rate	31.90%	31.90%	–
= Anticipated income tax expense in financial year	**156.2**	**191.7**	–35.5
Increase from taxes on non-deductible expenses	15.6	16.3	–0.7
Decrease from taxes on tax-exempt income	16.1	4.8	11.3
Withholding tax	0.3	0.3	–
Tax effect of special funds	–0.1	0.1	–0.2
Effects from interest rate changes	–1.5	–	–1.5
Tax effect of shares in companies accounted for using the equity method	1.5	4.5	–3.0
Effects of differing effective tax rates	–2.8	–3.1	0.3
Tax effects from past periods	10.6	1.1	9.5
Other	0.7	8.1	–7.4
Tax expenses according to IFRS	**164.3**	**214.2**	–49.9

Non-deductible expenses primarily include the effect of the non-deductible bank levy.

The tax effect from tax-exempt income relates to the recognition of negative goodwill in connection with the full acquisition of the shares in S Broker AG & Co. KG (€–11.4m) as well as the amount recognised through profit or loss from releasing a foreign currency translation reserve due to the deconsolidation of the subsidiary ExFin AG i.L., Zurich, following its liquidation (tax-exempt gain on disposal).

In the IFRS consolidated financial statements, the servicing of AT1 bonds is treated as remuneration for capital, and is offset directly against reserves. From a taxation point of view, the interest is accrued and is deductible. In order to align the figures with the treatment in the IFRS consolidated financial statements, the corresponding imputed tax benefit of €9.1m was recorded directly in equity. If the figure had been posted to profit or loss, the tax burden would have been 1.85% lower.

Notes to the consolidated balance sheet

40 Cash reserves

The breakdown in cash reserves is as follows:

€m	31 Dec 2016	31 Dec 2015	Change
Cash on hand	4.9	6.3	–1.4
Balances with central banks	3,682.7	3,601.8	80.9
Total	**3,687.6**	**3,608.1**	79.5

The required minimum reserve was maintained at all times during the reporting year and amounted to €231.5m at the reporting date (previous year: €296.0m).

41 Due from banks

€m	31 Dec 2016	31 Dec 2015	Change
Domestic banks	14,049.0	18,063.7	–4,014.7
Foreign banks	6,605.1	9,032.7	–2,427.6
Due from banks before risk provision	**20,654.1**	**27,096.4**	–6,442.3
Provisions for loan losses	–0.2	–2.4	2.2
Total	**20,653.9**	**27,094.0**	–6,440.1

DekaBank paid €8.8bn (previous year: €10.6bn) for genuine repurchase agreements and collateralised securities lending transactions as pledgee and borrower, respectively.

42 Due from customers

€m	31 Dec 2016	31 Dec 2015	Change
Domestic borrowers	5,230.5	5,438.3	–207.8
Foreign borrowers	17,943.5	17,291.7	651.8
Due from customers before risk provision	**23,174.0**	**22,730.0**	444.0
Provisions for loan losses	–333.1	–222.0	–111.1
Total	**22,840.9**	**22,508.0**	332.9

DekaBank paid €5.8bn (previous year: €6.5bn) for genuine repurchase agreements and collateralised securities lending transactions as pledgee and borrower, respectively.

43 Provisions for loan losses

Default risks in the lending business are recognised through the creation of specific and collective provisions and through the creation of provisions for off-balance sheet liabilities. The collective provisions for creditworthiness risks reflect the assumptions concerning impairments in the loan portfolio that have already occurred but are not yet known as at the reporting date. Transfer risk is taken into account by recognising collective provisions for country risks.

€m	31 Dec 2016	31 Dec 2015	Change
Provisions for loan losses – due from banks			
Specific provisions	–	2.1	–2.1
Collective provisions for creditworthiness risks	0.2	0.3	–0.1
Provisions for loan losses – due from customers			
Specific provisions	310.6	185.2	125.4
Collective provisions for creditworthiness risks	17.5	32.9	–15.4
Collective provisions for country risks	5.0	3.9	1.1
Total	**333.3**	**224.4**	108.9

The following table shows the movement in provisions for loan losses:

€m	Opening balance 1 Jan 2016	Additions	Allocation	Utilisation	Reversal	Disposals	Reclassi-fication	Cur-rency effects	Closing balance 31 Dec 2016
Provisions for loan losses – due from banks									
Specific provisions	2.1	–	–	1.4	0.6	–	–	–0.1	0.0
Collective provisions for country risks	–	–	–	–	–	–	–	–	–
Collective provisions for creditworthiness risks	0.3	–	–	–	0.1	–	–	–	0.2
Sub-total	**2.4**	**–**	**–**	**1.4**	**0.7**	**–**	**–**	**–0.1**	**0.2**
Provisions for loan losses – due from customers									
Specific provisions	185.2	0.3	218.4	95.8	5.9	–	–1.1	9.5	310.6
Collective provisions for creditworthiness risks	32.9	–	2.0	–	17.4	–	–	–	17.5
Collective provisions for country risks	3.9	–	1.7	–	0.7	–	–	0.1	5.0
Sub-total	**222.0**	**0.3**	**222.1**	**95.8**	**24.0**	**–**	**–1.1**	**9.6**	**333.1**
Provisions for credit risks									
Specific risks	0.4	–	–	0.1	1.0	–	1.1	–0.1	0.3
Portfolio risks	1.4	–	–	–	0.7	–	–	–	0.7
Sub-total	**1.8**	**–**	**–**	**0.1**	**1.7**	**–**	**1.1**	**–0.1**	**1.0**
Total	**226.2**	**0.3**	**222.1**	**97.3**	**26.4**	**–**	**–**	**9.4**	**334.3**

€m	Opening balance 1 Jan 2015	Additions	Allocation	Utilisation	Reversal	Disposals	Reclassi-fication	Cur-rency effects	Closing balance 31 Dec 2015
Provisions for loan losses – due from banks									
Specific provisions	–	–	2.1	–	–	–	–	–	2.1
Collective provisions for creditworthiness risks	2.5	–	–	–	2.2	–	–	–	0.3
Sub-total	**2.5**	**–**	**2.1**	**–**	**2.2**	**–**	**–**	**–**	**2.4**
Provisions for loan losses – due from customers									
Specific provisions	146.7	–	94.5	33.5	32.4	–	–0.2	10.1	185.2
Collective provisions for creditworthiness risks	27.2	–	8.1	–	2.2	–0.2	–	–	32.9
Collective provisions for country risks	4.2	–	–	–	0.4	–	–	0.1	3.9
Sub-total	**178.1**	**–**	**102.6**	**33.5**	**35.0**	**–0.2**	**–0.2**	**10.2**	**222.0**
Provisions for credit risks									
Specific risks	0.4	–	–	0.1	0.1	–	0.2	–	0.4
Portfolio risks	1.8	–	–	–	0.4	–	–	–	1.4
Sub-total	**2.2**	**–**	**–**	**0.1**	**0.5**	**–**	**0.2**	**–**	**1.8**
Total	**182.8**	**–**	**104.7**	**33.6**	**37.7**	**–0.2**	**–**	**10.2**	**226.2**

Key ratios for provisions for loan losses:

%	2016	2015
Reversal/allocation ratio as at reporting date[1] (Quotient from net allocation and lending volume)	–0.76	–0.24
Default rate as at reporting date (Quotient from loan defaults and lending volume)	0.37	0.12
Average default rate (Quotient from loan defaults in 5-year average and lending volume)	0.51	0.46
Net provisioning ratio as at reporting date (Quotient from provisions for loan losses and lending volume)	1.30	0.84

[1] allocation ratio shown without negative leading sign

Calculations of the above key ratios are based on the following lending volume as reflected on the balance sheet:

€m	31 Dec 2016	31 Dec 2015
Due from banks[1]	7,081.5	8,832.1
Due from customers[1]	15,389.0	14,915.1
Contingent liabilities	2,565.6	2,150.9
Irrevocable lending commitments	702.3	1,185.6
Total	**25,738.4**	**27,083.7**

[1] excluding money transactions

Provisions for loan losses by risk segment:

	Valuation allowances and provisions for loan losses and credit risks		Loan defaults[1]		Net allocations to[2]/reversals of valuation allowances and provisions for loan losses	
€m	31 Dec 2016	31 Dec 2015	2016	2015	2016	2015
Customers						
Transport and export finance	281.7	118.9	36.1	32.6	–189.0	–33.2
Public infrastructure	40.9	39.5	–	–	–1.4	–13.1
Property risks	1.6	32.2	25.7	–0.6	3.6	–4.5
Energy and utility infrastructure	8.6	31.4	33.0	–	–10.0	–17.7
Corporates	–	0.5	–	–0.4	0.4	0.7
Other	1.3	1.3	–	0.1	–	0.7
Total customers	**334.1**	**223.8**	**94.8**	**31.7**	**–196.4**	**–67.1**
Banks	**0.2**	**2.4**	**1.4**	**–**	**0.7**	**0.1**
Corporates	–	2.1	1.4	–	0.6	–2.1
Financial institutions	0.2	0.3	–	–	0.1	2.2
Total	**334.3**	**226.2**	**96.2**	**31.7**	**–195.7**	**–67.0**

[1] payments received on written-down receivables – negative in the column
[2] negative in the column

44 Financial assets at fair value

In addition to securities and receivables in the categories held for trading and designated at fair value, financial assets at fair value through profit or loss include positive market values from derivative financial instruments in the trading book and from economic hedges that do not meet the criteria for hedge accounting under IAS 39.

€m	31 Dec 2016	31 Dec 2015	Change
Held for trading			
Debt securities and other fixed-interest securities	5,309.9	19,894.0	–14,584.1
Bonds and debt securities	5,214.8	19,516.6	–14,301.8
Money market securities	95.1	377.4	–282.3
Shares and other non fixed-interest securities	1,107.2	2,604.6	–1,497.4
Shares	643.1	1,915.9	–1,272.8
Investment fund units	464.1	688.7	–224.6
Other non fixed-interest securities	–	–	–
Other	1,026.1	868.0	158.1
Promissory note loans	1,026.1	868.0	158.1
Positive market values from derivative financial instruments (trading)	7,194.8	9,790.0	–2,595.2
Total – held for trading	**14,638.0**	**33,156.6**	–18,518.6
Designated at Fair Value			
Debt securities and other fixed-interest securities	18,695.4	15,215.0	3,480.4
Bonds and debt securities	18,695.4	15,196.0	3,499.4
Money market securities	–	19.0	–19.0
Shares and other non fixed-interest securities	1,016.4	1,363.2	–346.8
Shares	15.9	–	15.9
Investment fund units	980.7	1,363.2	–382.5
Participating certificates	–	–	–
Other non fixed-interest securities	19.8	–	19.8
Promissory note loans	297.4	–	297.4
Amounts due from securities repurchase agreements	–	500.5	–500.5
Positive market values from derivative financial instruments (economic hedges)	256.0	672.5	–416.5
Total – designated at fair value	**20,265.2**	**17,751.2**	2,514.0
Total	**34,903.2**	**50,907.8**	–16,004.6

The fair value of receivables in the designated at fair value category includes cumulative creditworthiness-related changes in value amounting to €–4.1m (previous year: €0.0m).

The following debt securities and other fixed-interest securities, and shares and other non-fixed-interest securities in financial assets measured at fair value, are listed on the stock exchange:

€m	31 Dec 2016	31 Dec 2015	Change
Debt securities and other fixed-interest securities	23,048.1	33,683.6	–10,635.5
Shares and other non fixed-interest securities	1,054.0	2,452.9	–1,398.9

45 Positive market values from derivative hedging instruments

The positive market values from hedging instruments that meet the criteria for hedge accounting in accordance with IAS 39 can be broken down by underlying hedged transaction as follows:

€m	31 Dec 2016	31 Dec 2015	Change
Fair value hedges			
Asset items			
Due from banks	0.1	0.1	–
Due from customers	10.0	6.6	3.4
Liability items			
Due to banks	–	40.3	–40.3
Due to customers	11.9	53.9	–42.0
Securitised liabilities	6.6	7.1	–0.5
Subordinated capital	–	0.5	–0.5
Total fair value hedges	**28.6**	**108.5**	–79.9
Cash flow hedges			
Asset items	–	0.5	–0.5
Total	**28.6**	**109.0**	–80.4

The hedging instruments consist chiefly of interest rate swaps (fair value hedges) and spot currency transactions with rolling currency swaps (cash flow hedges).

46 Financial investments

€m	31 Dec 2016	31 Dec 2015	Change
Loans and receivables			
Debt securities and other fixed-interest securities	674.3	531.4	142.9
Held to maturity			
Debt securities and other fixed-interest securities	2,309.4	2,406.4	–97.0
Available for sale			
Debt securities and other fixed-interest securities	0.0	0.0	–
Shares and other non fixed-interest securities	0.0	0.0	0.0
Shareholdings			
Equity investments	30.8	27.9	2.9
Shares in equity-accounted companies	6.9	12.3	–5.4
Shares in affiliated, non-consolidated companies	1.1	4.6	–3.5
Shares in associated companies not accounted for under the equity method	0.2	0.2	–
Financial investments before risk provision	**3,022.7**	**2,982.8**	39.9
Risk provision	–53.8	–38.4	–15.4
Total	**2,968.9**	**2,944.4**	24.5

Shares in affiliated companies, as well as equity investments, are stated at acquisition cost. There is currently no intention to sell these assets. There are no publicly quoted market prices for companies valued using the equity method in the Deka Group.

Of the financial investments, the following are listed:

€m	31 Dec 2016	31 Dec 2015	Change
Debt securities and other fixed-interest securities	2,753.9	2,857.1	–103.2

The following table shows the movement in long-term financial investments:

€m	Equity investments	Shares in companies valued under the equity method	Shares in affiliated companies	Shares in associated companies	Total
Historical cost					
As at 1 January 2015	31.7	131.8	1.0	0.2	164.7
Additions	–	–	3.6	–	3.6
Disposals	2.9	–	–	–	2.9
As at 31 December 2015	28.8	131.8	4.6	0.2	165.4
Additions	–	0.0	0.4	–	0.4
Disposals	2.2	–	–	–	2.2
Change in scope of consolidation	–	–55.6	–3.9	–	–59.5
As at 31 December 2016	26.6	76.2	1.1	0.2	104.1
Cumulative amortisation/impairment					
As at 1 January 2015	0.9	103.7	–	–	104.6
Amortisation/impairment	–	18.8	–	–	18.8
Additions	–	4.4	–	–	4.4
Result from companies valued under the equity method	–	2.2	–	–	2.2
Reclassification and other changes	–	0.3	–	–	0.3
Changes in the revaluation reserve	–	–3.3	–	–	–3.3
As at 31 December 2015	0.9	119.5	–	–	120.4
Write-backs	–	2.6	–	–	2.6
Result from companies valued under the equity method	–	1.3	–	–	1.3
Reclassification and other changes	–	1.2	–	–	1.2
Changes in the revaluation reserve	5.1	–1.2	–	–	3.9
Change in scope of consolidation	–	–48.7	–	–	–48.7
As at 31 December 2016	–4.2	69.3	–	–	65.1
Carrying value as at 31 December 2015	**27.9**	**12.3**	**4.6**	**0.2**	**45.0**
Carrying value as at 31 December 2016	**30.8**	**6.9**	**1.1**	**0.2**	**39.0**

47 Intangible assets

€m	31 Dec 2016	31 Dec 2015	Change
Purchased goodwill	**148.1**	**148.1**	–
Software			
Purchased	29.6	20.1	9.5
Developed in-house	3.5	2.1	1.4
Total software	**33.1**	**22.2**	10.9
Other intangible assets	16.9	20.9	–4.0
Total	**198.1**	**191.2**	6.9

The line item acquired goodwill includes goodwill arising on the acquisition of LBB-INVEST (€95.0m). For the purposes of the impairment test performed as at 31 December 2016, this was allocated to the Securities business division as the cash-generating unit. As a result of its strategic reorganisation, the subsidiary LBB-INVEST (Landesbank Berlin Investment GmbH) has been fully integrated into the planning and management of the Securities business division. This line also contains goodwill arising on the acquisition of WestInvest Gesellschaft für Investmentfonds mbH (WestInvest) (€53.1m). The impairment test was carried out at the level of the Real Estate business division in the course of normal testing procedures as at 31 December 2016.

The recoverable amount of both cash-generating units, each taken individually, was determined on the basis of the value in use. The discount rate required for the income capitalisation approach used was derived using the Capital Asset Pricing Model (CAPM) methodology. The expected cash flows after tax were calculated for a five-year period.

The performance of the Securities business division's total customer assets under management was identified as a key value driver in its capacity as a cash-generating unit. The forecast was based on national economic data and past empirical values. Business and earnings trends are expected to remain stable. Values for perpetual annuity are in line with the forecast for 2021. The long-term growth rate remains unchanged at 1.0%. The discount rate amounted to 8.86% (previous year: 11.83%). The value in use established using this approach was higher than the carrying value of the cash-generating unit. As a result, no impairment write-down was required.

Internal forecasts based on national economic data and specific competition and market analyses were used for the Real Estate business division cash-generating unit. Account was taken of past empirical values, particularly with regard to material value drivers, namely the future development of total customer assets and the proportional gross loan volume. On the basis of planned net sales, the fund business is expected to see a further increase in total customer assets and to consolidate its successful market position over the next three years. This is contingent on the successful completion of the planned transactions in the target segments, which continue to be very competitive. For the subsequent years, 2020 and 2021, lower net cash inflows and correspondingly lower transaction income are forecast, due to the cyclical nature of sales as well as expected regulatory interventions (for example, reforms to the taxation of investments). The proven business strategy for property financing business will fundamentally remain in place, but there are plans to increase volumes significantly though new business, while at the same time reducing the number of external placements. Continuing price competition is expected to maintain pressure on margins in new business. Furthermore, expectations of future performance take into account a perpetual annuity in line with the forecast for 2021 and assume a long-term growth rate of 1.0% (previous year: 1.0%). The discount rate amounted to 7.46% (previous year: 9.06%). The value in use established using this approach was higher than the carrying value of the cash-generating unit. As a result, no impairment write-down was required.

The line item other intangible assets primarily contains sales partnerships and customer relationships from the acquisition of LBB-INVEST.

The following table shows the movement in intangible assets:

€m	Purchased goodwill	Software purchased	Software developed in-house	Other intangible assets	Total
Historical cost					
As at 1 January 2015	240.4	145.8	73.3	51.7	511.2
Additions	–	4.7	0.7	–	5.4
As at 31 December 2015	240.4	150.5	74.0	51.7	516.6
Additions	–	18.9	0.3	–	19.2
Disposals	–	3.5	0.4	1.1	5.0
Change in scope of consolidation	–	12.1	2.6	–	14.7
As at 31 December 2016	240.4	178.0	76.5	50.6	545.5
Cumulative amortisation/ impairment					
As at 1 January 2015	92.3	118.3	70.2	26.7	307.5
Amortisation/impairment	–	12.1	1.7	4.1	17.9
As at 31 December 2015	92.3	130.4	71.9	30.8	325.4
Amortisation/impairment	–	10.3	1.5	4.1	15.9
Disposals	–	3.5	0.4	1.2	5.1
Change in scope of consolidation	–	11.2	–	–	11.2
As at 31 December 2016	92.3	148.4	73.0	33.7	347.4
As at 31 December 2015	**148.1**	**20.1**	**2.1**	**20.9**	**191.2**
As at 31 December 2016	**148.1**	**29.6**	**3.5**	**16.9**	**198.1**

48 Property, plant and equipment

€m	31 Dec 2016	31 Dec 2015	Change
Land and buildings	–	–	–
Plant and equipment	14.7	14.6	0.1
Technical equipment and machines	2.4	1.7	0.7
Total	**17.1**	**16.3**	0.8

The movement in property, plant and equipment in the Deka Group was as follows:

€m	Land and buildings	Plant and equipment	Technical equipment and machines	Total
Historical cost				
As at 1 January 2015	28.0	44.0	59.2	131.2
Additions	–	0.6	0.7	1.3
Disposals	28.0	0.1	0.2	28.3
As at 31 December 2015	–	44.5	59.7	104.2
Additions	–	1.2	1.6	2.8
Disposals	–	0.1	3.7	3.8
Change Konsolidierungskreis	–	0.6	2.5	3.1
As at 31 December 2016	–	46.2	60.1	106.3
Cumulative amortisation/impairment				
As at 1 January 2015	15.2	28.8	57.2	101.2
Scheduled amortisation	0.2	1.1	1.0	2.3
Disposals	15.4	–	0.2	15.6
As at 31 December 2015	–	29.9	58.0	87.9
Amortisation/impairment	–	1.1	1.2	2.3
Disposals	–	0.1	3.7	3.8
Change Konsolidierungskreis	–	0.6	2.2	2.8
As at 31 December 2016	–	31.5	57.7	89.2
Carrying value as at 31 December 2015	**–**	**14.6**	**1.7**	**16.3**
Carrying value as at 31 December 2016	**–**	**14.7**	**2.4**	**17.1**

49 Income tax assets

€m	31 Dec 2016	31 Dec 2015	Change
Current income tax assets	193.6	164.0	29.6
Deferred income tax assets	156.1	57.5	98.6
Total	**349.7**	**221.5**	128.2

Deferred income tax assets represent the potential income tax relief arising from temporary differences between the values of assets and liabilities on the IFRS balance sheet and the tax balance sheet.

During the year under review, deferred tax assets on tax loss carry-forwards in the amount of €3.8m arose at two Group companies (previous year: €0.0m).

Deferred tax assets were recognised in relation to the following line items:

€m	31 Dec 2016	31 Dec 2015	Change
Asset items			
Due from banks	–	–	–
Due from customers	0.6	0.3	0.3
Financial assets at fair value	0.6	15.6	–15.0
Financial investments	–	–	–
Shares in equity-accounted companies	–	1.8	–1.8
Intangible assets	20.0	21.9	–1.9
Other assets	0.4	0.7	–0.3
Liability items			
Due to banks	18.8	11.7	7.1
Due to customers	75.3	71.3	4.0
Securitised liabilities	0.8	1.2	–0.4
Financial liabilities at fair value	299.6	251.0	48.6
Negative market values from derivative hedging instruments	21.0	10.1	10.9
Provisions	96.1	86.5	9.6
Other liabilities	5.0	3.7	1.3
Subordinated capital	3.5	0.4	3.1
Loss carryforwards	**3.8**	**–**	3.8
Sub-total	**545.5**	**476.2**	69.3
Netting	–389.4	–418.7	29.3
Total	**156.1**	**57.5**	98.6

Reported deferred tax assets include €156.0m (previous year: €57.5m) that are medium or long-term in nature.

As at the reporting date there were no unrecognised tax loss carry-forwards at any Group company (previous year: €18.5m at a foreign Group company liquidated during the reporting year, unrecognised tax amount: €3.9m). In the previous year, no deferred tax asset was recognised on tax loss carry-forwards at a German company disposed of during the reporting year (loss carry-forward: €0.5m, deferred tax asset not recognised: €0.2m). In addition, there were no temporary differences for which deferred tax assets have not been recognised (amount of tax assets not recognised during the previous year: €0.0m).

Netting of deferred tax assets and liabilities relates mainly to short-term deferred taxes as a result of temporary differences in connection with financial assets and liabilities at fair value.

At the reporting date, as in the previous year, there were no outside basis differences that would have led to the recognition of deferred tax assets.

Deferred income tax assets amounting to €54.1m (previous year: €48.9m) in connection with pension provisions and deferred income tax assets amounting to €9.3m (previous year: €12.6m) in connection with cash flow hedges were offset against equity.

50 Other assets

€m	31 Dec 2016	31 Dec 2015	Change
Amounts due from investment funds	125.7	140.0	– 14.3
Amounts due from non-banking business	22.3	22.3	–
Amounts due or refunds from other taxes	0.7	0.7	–
Other miscellaneous assets	129.1	191.3	–62.2
Prepaid expenses	28.9	26.2	2.7
Total	**306.7**	**380.5**	–73.8

No impairment write-downs or write-backs were required during the reporting year as a result of the measurement rules to be applied at the time of classification under IFRS 5.

Other assets include €9.8 thousand (previous year: €0.3m) that are of a medium or long-term nature.

51 Due to banks

€m	31 Dec 2016	31 Dec 2015	Change
Domestic banks	13,150.2	16,640.1	–3,489.9
Foreign banks	4,212.2	7,444.0	–3,231.8
Total	**17,362.4**	**24,084.1**	–6,721.7
Of which:			
Collateralised registered bonds and promissory note loans	199.1	204.8	–5.7
Unsecured registered bonds and promissory note loans	2,797.7	2,593.2	204.5

Amounts due to banks include payments received from genuine securities repurchase agreements and collateralised securities lending transactions amounting to €3.5bn (previous year: €5.7bn).

52 Due to customers

€m	31 Dec 2016	31 Dec 2015	Change
Domestic borrowers	16,523.3	18,970.8	–2,447.5
Foreign borrowers	6,895.8	10,491.2	–3,595.4
Total	**23,419.1**	**29,462.0**	–6,042.9
Of which:			
Collateralised registered bonds and promissory note loans	1,633.3	1,907.0	–273.7
Unsecured registered bonds and promissory note loans	1,262.8	1,123.0	139.8

Amounts due to customers include payments received from genuine securities repurchase agreements and collateralised securities lending transactions amounting to €2.5bn (previous year: €4.8bn).

53 Securitised liabilities

Securitised liabilities include bonds and other liabilities for which transferable certificates are issued. Under IAS 39, own bonds held by the Deka Group with a nominal amount of €0.2bn (previous year: €0.2bn) were deducted from the issued bonds.

€m	31 Dec 2016	31 Dec 2015	Change
Unsecured bonds issued	8,100.6	6,353.2	1,747.4
Covered debt securities issued	224.8	284.9	–60.1
Money market securities issued	2,750.7	13,283.7	–10,533.0
Total	**11,076.1**	**19,921.8**	–8,845.7

54 Financial liabilities at fair value

In addition to trading issues and liabilities in the designated at fair value category, financial liabilities at fair value include negative market values from derivative financial instruments in the trading book as well as economic hedges which do not meet the criteria for hedge accounting in accordance with IAS 39. Securities short portfolios are also reported in this line item.

€m	31 Dec 2016	31 Dec 2015	Change
Held for trading			
Trading issues	15,063.5	11,796.0	3,267.5
Securities short portfolios	772.8	1,217.2	−444.4
Negative market values from derivative financial instruments (trading)	7,409.5	10,149.5	−2,740.0
Total – held for trading	**23,245.8**	**23,162.7**	83.1
Designated at fair value			
Issues	2,116.7	2,525.8	−409.1
Negative market values from derivative financial instruments (economic hedges)	1,157.0	1,426.3	−269.3
Total – designated at fair value	**3,273.7**	**3,952.1**	−678.4
Total	**26,519.5**	**27,114.8**	−595.3

Issues can be broken down by product type as follows:

€m	31 Dec 2016	31 Dec 2015	Change
Held for trading			
Unsecured trading issues			
Bearer bonds issued	11,601.0	8,979.9	2,621.1
Registered bonds issued	1,094.3	714.0	380.3
Promissory notes raised	2,368.3	2,102.1	266.2
Total	**15,063.5**	**11,796.0**	3,267.5
Designated at fair value			
Unsecured issues			
Bearer bonds issued	364.7	422.4	−57.7
Registered bonds issued	342.1	489.4	−147.3
Promissory notes raised	329.0	482.9	−153.9
Covered issues	1,080.9	1,131.1	−50.2
Total	**2,116.7**	**2,525.8**	−409.1

The fair value of issues in the designated at fair value category includes cumulative creditworthiness-related changes in value amounting to €8.9m (previous year: €16.1m).

The carrying value of liabilities allocated to the designated at fair value category is €247.9m higher (previous year: €291.5m higher) than the repayment amount.

55 Negative market values from derivative hedging instruments

The negative market values of hedging instruments that meet the criteria for hedge accounting in accordance with IAS 39 are shown below by hedged underlying transactions:

€m	31 Dec 2016	31 Dec 2015	Change
Fair value hedges			
Asset items			
Due from banks	–	9.9	–9.9
Due from customers	31.0	26.6	4.4
Liability items			
Due to banks	–	–0.3	0.3
Securitised liabilities	0.1	–0.1	0.2
Subordinated capital	0.1	–0.1	0.2
Total – fair value hedges	**31.2**	**36.0**	–4.8
Cash flow hedges			
Asset items	3.2	–	3.2
Total	**34.4**	**36.0**	–1.6

The hedging instruments consist chiefly of interest rate swaps (fair value hedges) and spot currency transactions with rolling currency swaps (cash flow hedges).

56 Provisions for pensions and similar commitments

The following table shows the movement in provisions:

€m	Provisions for pensions	Provisions for similar commitments[1]	Total
As at 1 January 2015	**230.3**	**22.0**	**252.3**
Additions	40.7	1.9	42.6
Utilisations	11.7	6.7	18.4
Reclassification	–	8.1	8.1
Change in plan assets	–15.2	–0.4	–15.6
Business combinations and change in scope of consolidation	–	–	–
Revaluations not affecting net profit	–55.4	–	–55.4
As at 31 December 2015	**188.7**	**24.9**	**213.6**
Additions	36.6	2.3	38.9
Utilisations	13.4	6.2	19.6
Reclassification	–	1.6	1.6
Change in plan assets	–13.0	–0.9	–13.9
Business combinations and change in scope of consolidation	0.2	–	0.2
Revaluations not affecting net profit	15.1	–	15.1
As at 31 December 2016	**214.2**	**21.7**	**235.9**

[1] including provisions for working hours accounts

The present value of the defined benefit obligations can be reconciled to the provision on the balance sheet as follows:

€m	31 Dec 2016	31 Dec 2015	Change
Present value of fully or partially funded defined benefit obligations	709.3	658.3	51.0
Fair value of plan assets at reporting date	519.9	491.9	28.0
Funded status	**189.4**	**166.4**	23.0
Present value of unfunded defined benefit obligations	46.5	47.2	−0.7
Provisions for pensions	**235.9**	**213.6**	22.3

The movement in the net liability arising from defined benefit obligations was as follows:

	Defined benefit obligations		**Fair value of plan assets**		**Net debt/ (net assets)**	
€m	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
As at 1 January	**705.5**	**706.0**	**491.9**	**453.7**	**213.6**	**252.3**
Current service cost	33.2	36.9	–	–	33.2	36.9
Interest expenses or income	17.1	14.8	11.4	9.1	5.7	5.7
Net interest income/expense (recognised in profit or loss)	**50.3**	**51.7**	**11.4**	**9.1**	**38.9**	**42.6**
Actuarial gains/losses arising from:						
Financial assumptions	24.9	−37.2	–	–	24.9	−37.2
Experience adjustments	−8.1	−4.7	–	–	−8.1	−4.7
Income from plan assets excluding interest income	–	–	1.7	13.5	−1.7	−13.5
Revaluation gains/losses (recognised in other comprehensive income)	**16.8**	**−41.9**	**1.7**	**13.5**	**15.1**	**−55.4**
Transfers	1.6	8.1	–	–	1.6	8.1
Business combinations and change in scope of consolidation	1.2	–	1.0	–	0.2	–
Employer contributions	–	–	6.2	6.3	−6.2	−6.3
Employee contributions	–	–	9.9	10.2	−9.9	−10.2
Employee benefits	−19.6	−18.4	−2.2	−0.9	−17.4	−17.5
As at 31 December	**755.8**	**705.5**	**519.9**	**491.9**	**235.9**	**213.6**
Of which:						
Final salary plans and general contribution schemes	484.8	470.4	311.7	311.9	173.1	158.5
Fund-based defined contribution plans	243.8	205.6	202.5	175.4	41.3	30.2

The present value of the defined benefit obligation was calculated using the Heubeck mortality tables 2005 G based on the following actuarial parameters:

%	31 Dec 2016	31 Dec 2015	Change
Actuarial interest rate	1.95	2.30	−0.35
Pension trend for adjustments according to Section 16 (2) Company Pension Funds Act (BetrAVG)[1]	1.75	2.00	−0.25
Pension adjustment with overall trend updating[1]	2.25	2.50	−0.25
Salary trend[1]	2.50	2.50	–

[1] not relevant for the valuation of fund-based commitments as these are not dependent on the final salary

For forfeitable projected benefits, staff turnover profiles published by Heubeck-Richttafeln-GmbH are also used in the calculation with a level parameter of 1.5. The discount factor for similar commitments was −0.25% (previous year: 0.04%) This rate takes account of the shorter time to maturity compared to pension commitments as well as the rate of adjustment in early retirement and transitional payments not shown separately.

The sensitivity analysis presented below shows how a change in significant actuarial assumptions can affect the defined benefit obligation (DBO). This considers the change in one assumption, leaving the other assumptions unchanged relative to the original calculation. This means that potential correlation effects between the individual assumptions are disregarded. The sensitivity analysis only applies to the present value of the defined benefit obligation (DBO) and not to the net obligation, as this is determined by a number of factors including both the actuarial assumptions and the plan assets measured at fair value.

€m	**Change in actuarial assumptions**	**Effect on defined benefit obligations**	
		31 Dec 2016	**31 Dec 2015**
Actuarial interest rate	Increase of 1.0 percentage point	−110.9	−104.1
	Reduction of 1.0 percentage point	144.7	136.5
Salary trend	Increase of 0.25 percentage point	6.8	6.9
	Reduction of 0.25 percentage point	−6.4	−6.5
Pension trend	Increase of 0.25 percentage point	15.9	15.3
	Reduction of 0.25 percentage point	−15.2	−14.5
Life expectancy	Extended by 1 year	22.0	20.9

At the balance sheet date, plan assets were as follows:

€m	**31 Dec 2016**	**31 Dec 2015**	Change
Equity funds	191.8	164.8	27.0
Bond funds	1.7	2.3	−0.6
Mixed funds	8.0	7.2	0.8
Near-money market funds	5.6	4.7	0.9
Mutual funds	207.1	179.0	28.1
Special funds	311.9	311.8	0.1
Insurance contracts	0.9	1.1	−0.2
Total	**519.9**	**491.9**	28.0

Apart from insurance contracts, the plan assets consist of assets for which quoted market prices are available on an active market. As at 31 December 2016, the plan assets included €519.0m of the Deka Group's own investment funds (previous year: €490.8m). They did not include properties used by the Deka Group or other assets.

The units in mutual funds are used to finance fund-based commitments and working hours accounts. Investments were made in a special fund for commitments under final salary plans and general contribution schemes, the investment strategy of which is based on an integrated asset-liability approach. Insurance contracts relate mainly to term life assurance policies. The risks associated with defined benefit obligations include not only the usual actuarial risks – such as longevity risk and interest-rate risk – but also risks in connection with the plan assets. In particular, the plan assets may be subject to market price risks.

The income from the plan assets is assumed to be at the level of the actuarial interest rate which is determined on the basis of corporate bonds with a credit rating of at least AA. If the actual return on the plan assets falls below the actuarial interest rate applied, the net obligation arising from the defined benefit commitments is increased. However, in view of the composition of the plan assets, it is assumed that the actual return over the medium to long term will exceed the yield on good-quality corporate bonds.

The amount of the net obligation is also affected, in particular, by the actuarial interest rate, whereby the current very low level of interest rates leads to a relatively high net obligation. A further decline in corporate bond yields would lead to a further increase in the defined benefit obligations, which can only be partially offset by the positive performance of the plan assets.

The weighted average maturity of the defined benefit pension obligations was 17.4 years as at the balance sheet date (previous year: 17.2 years).

The present value of the defined benefit obligations is made up as follows:

€m	31 Dec 2016	31 Dec 2015	Change
Current scheme members	398.7	360.1	38.6
Former scheme members	166.8	157.5	9.3
Pensioners and surviving dependants	190.3	187.9	2.4
Present value of defined benefit obligation	**755.8**	**705.5**	50.3

For the 2017 financial year, it is expected that contributions amounting to €16.1m (previous year: €16.5m) will have to be allocated to the defined benefit schemes.

57 Other provisions

€m	31 Dec 2016	31 Dec 2015	Change
Provisions for restructuring measures	27.2	9.9	17.3
Provisions for legal risiks	7.4	9.4	−2.0
Provisions for operational risks	0.6	0.7	−0.1
Provisions for credit risks	1.0	1.8	−0.8
Provisions in human resources	0.5	1.4	−0.9
Provisions in investment funds business	72.6	112.0	−39.4
Sundry other provisions	12.8	105.1	−92.3
Total	**122.1**	**240.3**	−118.2

Restructuring provisions arise from the Deka Group's various restructuring activities, including the transformation process aimed at turning DekaBank into the *Wertpapierhaus* for the savings banks, as well as the strategic reorganisation of the subsidiary LBB-INVEST (Landesbank Berlin Investment GmbH) in the Securities business division. Provisions for legal and operational risks are established for potential losses that could result from the use of inadequate internal processes and systems or their failure, as well as from human error and external events. Operational risks can lead to claims from customers, counterparties and supervisory authorities or to legal action.

Provisions for credit risks are provisions created for impairments identified in relation to guarantees and sureties (see note [43]).

Furthermore, provisions were created for the funds described below with formal guarantees and targeted returns.

Amongst other things, the Deka Group's range of products includes investment funds with guarantees of various types. At maturity of the fund or at the end of the investment period, the capital management company guarantees the capital invested less charges, or the unit value at the start of the respective investment period. The amount of the provision is determined from the forecast shortfall at the guarantee date, which represents the difference between the expected and guaranteed unit value. On the balance sheet date, provisions of €2.4m (previous year: €7.9m) were established based on the performance of the respective fund assets. As at the reporting date, the guarantees covered a maximum total volume of €3.9bn (previous year: €4.8bn) at the respective guarantee dates. The market value of the corresponding fund assets totalled €4.1bn (previous year: €5.0bn). These also include the funds described below with a forecast return performance and a volume of €2.4bn (previous year: €2.7bn).

Investment funds, whose return is forecast and published on the basis of current money market rates set by the Group, exist in two fund varieties: with or without a capital guarantee. The level of the provision is determined using potential loss scenarios taking account of the risks related to liquidity, interest rate and spreads. As at the reporting date, provisions of €40.1m (previous year: €78.7m) had been established. The underlying total value of the funds amounted to €6.5bn (previous year: €6.1bn), of which €2.4bn (previous year: €2.7bn) related to funds with a capital guarantee and €4.1bn (previous year: €3.4bn) related to funds without a capital guarantee.

The sundry other provisions were established in respect of liabilities arising from a range of issues.

The movement in other provisions is as follows:

€m	Opening balance 1 Jan 2016	Addition	Utilisation	Reversal	Reclassi-fications	Accumu-lation	Currency effects	Closing balance 31 Dec 2016
Provisions for restructuring measures	9.9	18.6	–	–	−1.3	–	–	27.2
Provisions for legal risks	9.4	0.5	–	2.5	–	–	–	7.4
Provisions for operational risks	0.7	0.1	–	0.2	–	–	–	0.6
Provisions for credit risks	1.8	–	0.1	1.7	1.1	–	−0.1	1.0
Provisions in human resources	1.4	0.5	0.8	0.4	−0.3	–	–	0.5
Provisions in investment funds business	112.0	7.1	1.3	45.1	–	−0.1	–	72.6
Sundry other provisions	105.1	33.6	103.8	22.1	–	–	–	12.8
Other provisions	**240.3**	**60.4**	**106.0**	**72.0**	**−0.5**	**−0.1**	**−0.1**	**122.1**

Depending on their original nature, some of the provisions for restructuring measures are reclassified as provisions for pensions and similar commitments in the subsequent year.

Other provisions include €45.0m (previous year: €100.9m) that are of a medium or long-term nature.

58 Income tax liabilities

€m	31 Dec 2016	31 Dec 2015	Change
Provisions for income taxes	16.8	21.3	−4.5
Current income tax liabilities	42.1	58.4	−16.3
Deferred income tax liabilities	123.3	28.1	95.2
Total	**182.2**	**107.8**	74.4

Provisions for income taxes relate to corporation tax, the solidarity surcharge and trade tax. Provisions for income taxes include €16.8m (previous year: €21.3m) that are of a medium or long-term nature.

Current income tax liabilities comprise payments due but not yet paid as at the reporting date for income taxes from the reporting year and earlier periods. Deferred income tax liabilities represent the potential income tax charges from temporary differences between the values of assets and liabilities on the IFRS balance sheet and the tax balance sheet.

Deferred tax liabilities were recognised in relation to the following line items on the balance sheet:

€m	31 Dec 2016	31 Dec 2015	Change
Asset items			
Due from banks	3.0	9.1	–6.1
Due from customers	5.6	77.6	–72.0
Financial assets at fair value	317.3	270.8	46.5
Positive market values from derivative hedging instruments	124.5	32.6	91.9
Financial investments	50.6	44.9	5.7
Intangible assets	5.7	6.3	–0.6
Property, plant and equipment	–	–	–
Other assets	4.8	4.6	0.2
Liability items			
Due to customers	–	–	–
Provisions	0.0	0.1	–0.1
Other liabilities	1.2	0.8	0.4
Sub-total	**512.7**	**446.8**	65.9
Netting	–389.4	–418.7	29.3
Total	**123.3**	**28.1**	95.2

The deferred tax liabilities reported are all of a short-term nature (€121.7m, previous year: €28.1m).

Netting of deferred tax assets and liabilities relates mainly to short-term deferred taxes as a result of temporary differences in connection with financial assets and liabilities at fair value.

As at the reporting date, temporary differences existed in connection with outside basis differences at consolidated subsidiaries amounting to €475.5m (previous year: €471.1m), resulting in imputed deferred tax liabilities of €7.6m (previous year: €7.5m) which, in accordance with IAS 12.39, have not been recognised on the balance sheet. In the previous year, a liability of €0.2m was recognised in connection with the liquidation of a subsidiary, ExFin AG i.L, Zurich, which was completed in the first quarter of 2016.

During the reporting year, deferred income tax liabilities amounting to €0.1m (previous year: €0.7 thousand) in connection with the revaluation of an equity investment sold after the reporting date and the revaluation of bonds and other securities in the available for sale portfolio were offset against equity.

59 Other liabilities

The breakdown of other liabilities is as follows:

€m	31 Dec 2016	31 Dec 2015	Change
Liabilities			
Debt capital from minority interests	0.8	0.8	–
Commissions not yet paid to sales offices	101.2	97.1	4.1
Liabilities from current other taxes	26.5	30.5	–4.0
Securities spot deals not yet settled	2.2	0.1	2.1
Shares of profit attributable to atypical silent partners	84.1	7.7	76.4
Other	75.1	73.6	1.5
Accruals			
Sales performance compensation	290.6	301.9	–11.3
Personnel costs	106.5	107.3	–0.8
Closing and other audit costs	5.9	6.2	–0.3
Other accruals	48.6	45.3	3.3
Prepaid income	4.2	4.7	–0.5
Total	**745.7**	**675.2**	70.5

Debt capital from minority interests essentially comprises the minority interests in consolidated investment funds. This is presented under other liabilities, since the unit holders have a redemption right at any time.

DekaBank offsets the share of profit attributable to atypical silent partners against the taxes already deducted for the benefit of the owners. As at the reporting date, the share of profit was €84.1m higher than the taxes deducted.

The item 'other' includes trade payables of €42.4m (previous year: €44.0m) and liabilities to custodial account holders of €11.1m (previous year: €1.8m).

Other liabilities include €3.3m (previous year: €0.6m) that are of a medium or long-term nature.

60 Subordinated capital

€m	31 Dec 2016	31 Dec 2015	Change
Subordinated bearer bonds	187.8	188.3	–0.5
Subordinated promissory note loans	172.4	213.4	–41.0
Other subordinated liabilities	525.8	514.6	11.2
Prorated interest on subordinated liabilities	20.6	21.5	–0.9
Capital contributions of typical silent partners	203.9	203.9	–
Prorated interest on capital contributions of typical silent partners	8.0	8.0	–
Total	**1,118.5**	**1,149.7**	–31.2

In detail, the issues of subordinated capital are as follows:

Year of issue	Nominal amount €m	Interest rate in % p.a.	Maturity
2009	75.0	6.00	2019
2013	25.0	4.00	2023
2013	12.7	4.13	2024
2013	5.0	4.26	2025
2013	52.1	4.50	2028
2013	18.0	4.75	2033
2014	105.7	4.01	2024
2014	137.5	4.15	2025
2014	6.0	4.34	2027
2014	10.0	4.53	2028
2014	97.0	4.52	2029
2014	6.0	4.57	2030
2014	25.0	4.80	2034
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 are no agreements or plans to convert these funds into capital or another form of debt. There is no early repayment obligation.

Interest expenses for typical silent capital contributions existing as at the reporting date amounted to €8.0m and are reported in net interest income (see note [30]). Silent capital contributions of €203.9m have been terminated in full.

61 Atypical silent capital contributions

Atypical silent capital contributions amounted to €52.4m (previous year: €52.4m). The distribution on atypical silent capital contributions in the year under review was €59.3m (previous year: €56.9m).

62 Equity

€m	31 Dec 2016	31 Dec 2015	Change
Subscribed capital	286.3	286.3	–
Less own shares	94.6	94.6	–
Additional equity components (AT1 bonds)	473.6	473.6	–
Capital reserve	190.3	190.3	–
Reserves from retained earnings			
Statutory reserve	6.3	13.4	–7.1
Reserves required by the Bank's statutes	51.3	51.3	–
Other reserves from retained earnings	4,235.4	4,054.4	181.0
Total reserves from retained earnings	**4,293.0**	**4,119.1**	173.9
Revaluation reserve			
For provisions for pensions	–169.5	–154.4	–15.1
For cash flow hedges	–29.1	–39.5	10.4
For financial instruments available for sale	5.1	–	5.1
For equity-accounted companies	–4.5	–3.3	–1.2
Applicable deferred taxes	63.3	61.5	1.8
Total revaluation reserve	**–134.7**	**–135.7**	1.0
Currency translation reserve	1.8	16.2	–14.4
Consolidated profit/loss	70.7	67.9	2.8
Total	**5,086.4**	**4,923.1**	163.3

In the 2016 financial year, a negative valuation result from existing cash flow hedges totalling €–3.0m (previous year: €–13.1m) was recorded in the revaluation reserve. In addition, a loss on completed hedging transactions in the amount of €–13.4m (previous year: €–24.9m) was reclassified from the revaluation reserve to profit on financial instruments in the designated at fair value category. As a result of unscheduled repayments and syndications, margin cash flows from loans that were originally hedged, converted in the amount of €42.2m (previous year: €74.6m), will not arise in future periods. The cash flow hedge was modified accordingly. There were no reclassifications due to the ineffectiveness of hedges during the reporting year.

The hedged cash flows are expected in the following subsequent reporting periods and are scheduled to be recognised through profit or loss in those periods:

€m	31 Dec 2016	31 Dec 2015	Change
Expected cash flows from asset items			
Up to 3 months	34.4	25.1	9.3
3 months to 1 year	57.2	57.0	0.2
1 year to 5 years	172.0	194.1	–22.1
More than 5 years	48.7	53.3	–4.6
Total expected cash flows	**312.3**	**329.5**	–17.2

Notes to financial instruments

63 Carrying values by valuation category

In the Deka Group, financial instruments are classified by balance sheet line item and IFRS categories in accordance with IFRS 7:

€m	31 Dec 2016	31 Dec 2015	Change
Asset items			
Loans and receivables			
Due from banks	20,653.9	27,094.0	−6,440.1
Due from customers	22,840.9	22,508.0	332.9
Financial investments	672.4	531.1	141.3
Held to maturity			
Financial investments	2,257.5	2,368.3	−110.8
Available for sale			
Financial investments	39.0	45.0	−6.0
Held for trading			
Financial assets at fair value	14,638.0	33,156.6	−18,518.6
Designated at fair value			
Financial assets at fair value	20,265.1	17,751.2	2,513.9
Positive market values from derivative hedging instruments	28.6	109.0	−80.4
Total asset items	**81,395.4**	**103,563.2**	−22,167.8
Liability items			
Other liabilities			
Due to banks	17,362.4	24,084.1	−6,721.7
Due to customers	23,419.1	29,462.0	−6,042.9
Securitised liabilities	11,076.1	19,921.8	−8,845.7
Subordinated capital	1,118.5	1,149.7	−31.2
Held for trading			
Financial liabilities at fair value	23,245.8	23,162.7	83.1
Designated at fair value			
Financial liabilities at fair value	3,273.6	3,952.1	−678.5
Negative market values from derivative hedging instruments	34.4	36.0	−1.6
Total liability items	**79,529.9**	**101,768.4**	−22,238.5

64 Net income by valuation category

The individual valuation categories resulted in the following contributions to income and expenses:

€m	31 Dec 2016	31 Dec 2015	Change
Loans and receivables	289.8	462.6	−172.8
Held to maturity	50.1	59.8	−9.7
Other liabilities	−363.8	−417.8	54.0
Other comprehensive income	5.1	–	5.1
Results recognised in profit or loss	2.5	9.7	−7.2
Available for sale	7.6	9.7	−2.1
Held for trading	304.8	277.2	27.6
Designated at fair value	57.9	16.5	41.4
Valuation result from hedge accounting for fair value hedges	2.4	−4.1	6.5
Result from hedge accounting for cash flow hedges not recognised in profit or loss	10.4	−13.1	23.5

Income and expenses are presented in line with their allocation to valuation categories in accordance with IAS 39. All income and expense components, i.e. sales and valuation results as well as interest and current income, are included. Net interest income from derivative financial instruments in the trading book is reported in the held for trading category. Net interest income from economic hedging derivatives (banking book derivatives) that do not meet the requirements for hedge accounting are reported in the designated at fair value category. This does not include commission on trading portfolios or financial instruments in the designated at fair value category. Income or expenses from companies valued under the equity method are also excluded.

As in the previous year, no reclassifications were carried out during the reporting year.

65 Fair value data

The carrying values and fair values of financial assets and financial liabilities are divided among the classes of financial instruments as shown in the following table.

	31 Dec 2016		31 Dec 2015	
€m	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**
Asset items				
Cash reserve	3,687.6	3,687.6	3,608.1	3,608.1
Due from banks	20,835.2	20,653.9	27,290.4	27,094.0
Due from customers	23,122.1	22,840.9	22,623.2	22,508.0
Financial assets at fair value	34,903.2	34,903.2	50,907.8	50,907.8
Positive market values from derivative hedging instruments	28.6	28.6	109.0	109.0
Financial assets	2,983.3	2,968.9	3,004.3	2,944.4
Loans and receivables	632.9	672.4	485.3	531.1
Held to maturity	2,311.4	2,257.5	2,474.0	2,368.3
Available for sale	39.0	39.0	45.0	45.0
Other assets	183.9	183.9	164.5	164.5
Total asset items	**85,743.9**	**85,267.0**	**107,707.3**	**107,335.8**
Liability items				
Due to banks	17,521.7	17,362.4	24,290.6	24,084.1
Due to customers	23,691.8	23,419.1	29,806.6	29,462.0
Securitised liabilities	11,164.2	11,076.1	20,025.5	19,921.8
Financial liabilities at fair value	26,519.5	26,519.5	27,114.8	27,114.8
Negative market values from derivative hedging instruments	34.4	34.4	36.0	36.0
Subordinated liabilities	1,217.8	1,118.5	1,249.4	1,149.7
Other liabilities	230.7	230.7	149.7	149.7
Total liability items	**80,380.1**	**79,760.7**	**102,672.6**	**101,918.1**

For financial instruments due on demand or short-term financial instruments, fair value corresponds to the amount payable as at the reporting date. The carrying value therefore represents a reasonable approximation to the fair value. These include, among other things, the cash reserve, overdraft facilities and demand deposits owed to banks and customers, as well as financial instruments included in the other assets or liabilities item. In the following description of the fair value hierarchy, financial assets amounting to €4,565.5m (previous year: €4,327.2m) and financial liabilities amounting to €10,729.3m (previous year: €10,527.7m) are not allocated to any level of the fair value hierarchy.

Shares in affiliated unlisted companies and other equity investments in the amount of €39.0m (previous year: €45.0m) included in financial investments allocated to the available for sale category, for which neither prices from active markets nor the factors relevant for valuation models can be reliably determined, are stated at cost. There is currently no intention to sell these assets. These financial instruments are also not allocated to any level of the fair value hierarchy in the table below.

Financial instruments in the held to maturity category are bearer bonds for which there was an active market on acquisition. Their fair values correspond to market prices or were determined on the basis of observable market parameters.

Fair value hierarchy

Financial instruments carried at fair value on the balance sheet, as well as financial instruments that are not measured at fair value but whose fair value must be stated, must be allocated to the following three fair value hierarchy levels specified in IFRS 13, depending on the input factors influencing their valuation:

Level 1 (Prices listed on active markets): Financial instruments whose fair value can be derived directly from prices on active, liquid markets are allocated to this level.

Level 2 (Valuation method based on observable market data): Financial instruments whose fair value can be determined either from similar financial instruments traded on active and liquid markets, or from similar or identical financial instruments traded on less liquid markets, or based on valuation methods with directly or indirectly observable input factors are allocated to this level.

Level 3 (Valuation method not based on observable market data): Financial instruments whose fair value is determined based on valuation models using, inter alia, input factors not observable in the market, provided they are significant for the valuation, are allocated to this level.

The tables below show the fair values of the financial instruments recognised on the balance sheet, allocated to the respective level of the fair value hierarchy.

	Prices on active markets (Level 1)		Valuation method based on observable market data (Level 2)		Valuation method not based on observable market data (Level 3)	
€m	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**
Financial assets at fair value						
Debt securities, other fixed-interest securities and loan receivables	12,942.4	20,672.1	9,884.3	12,904.6	2,502.2	2,400.4
Shares and other non fixed-interest securities	1,996.3	3,672.1	127.2	295.7	–	–
Derivative financial instruments						
Interest-rate-related derivatives	0.1	0.1	5,705.2	6,677.1	15.8	15.3
Currency-related derivatives	–	–	225.9	113.3	–	–
Share-price and other price-related derivatives	329.7	335.0	1,170.6	3,313.7	3.5	7.9
Other financial assets (dafv)	–	–	–	500.5	–	–
Positive market values from derivative hedging instruments	–	–	28.6	109.0	–	–
Assets measured at amortised cost						
Due from banks	–	–	14,338.6	18,944.4	6,150.4	7,927.4
Of which relating to genuine repurchase agreements and collateralised securities lending transactions	–	–	8,753.8	10,604.0	–	–
Due from customers	–	–	7,770.4	7,767.6	15,003.9	14,719.6
Of which relating to genuine repurchase agreements and collateralised securities lending transactions	–	–	5,813.0	6,517.4	–	–
Financial investments	1,254.9	1,130.2	656.6	504.7	1,032.8	1,324.4
Total	**16,523.4**	**25,809.5**	**39,907.4**	**51,130.6**	**24,708.6**	**26,395.0**
Financial liabilities at fair value						
Securities short portfolios	647.1	1,102.3	125.7	114.9	–	–
Derivative financial instruments						
Interest-rate-related derivatives	0.9	0.1	5,923.5	6,905.4	139.9	33.6
Currency-related derivatives	–	–	214.0	127.7	–	–
Share-price and other price-related derivatives	665.8	671.9	1,621.0	3,828.7	1.4	8.3
Issues	–	–	16,472.4	13,791.3	707.8	530.5
Negative market values from derivative hedging instruments	–	–	34.4	36.0	–	–
Liabilities measured at amortised cost						
Due to banks	–	–	14,008.4	21,418.1	2,565.2	2,403.3
Of which liabilities relating to genuine repurchase agreements and collateralised securities lending transactions	–	–	3,788.9	5,729.4	–	–
Due to customers	–	–	12,701.4	18,610.2	1,439.9	1,287.7
Of which liabilities relating to genuine repurchase agreements and collateralised securities lending transactions	–	–	2,563.8	4,781.3	–	–
Securitised liabilities	–	–	11,164.2	20,025.5	–	–
Subordinated capital	–	–	–	–	1,217.8	1,249.4
Total	**1,313.8**	**1,774.3**	**62,265.0**	**84,857.8**	**6,072.0**	**5,512.8**

Reclassifications

The following reclassifications between level 1 and level 2 of the fair value hierarchy took place in respect of assets and liabilities measured at fair value and held in the portfolio at the balance sheet date:

	Reclassification from level 1 to level 2		Reclassification from level 2 to level 1	
€m	2016	2015	2016	2015
Financial assets at fair value				
Debt securities, other fixed-interest securities and loan receibales	3,487.9	2,202.4	925.6	659.9
Shares and other non fixed-interest securities	–	249.5	–	642.9
Derivative financial instruments				
Interest-rate-related derivatives	–	0.1	–	–
Financial liabilities at fair value				
Securities short portfolios	68.3	3.5	4.0	88.5

Financial instruments were transferred from level 1 to level 2 during the year under review because it could no longer be demonstrated that an active market existed for these financial instruments. Financial instruments were also transferred from level 2 to level 1 because, at the reporting date, prices were available for these financial instruments on an active market which could be used unchanged for valuation purposes.

Within the Deka Group, reclassifications between the different levels of the fair value hierarchy are deemed to have taken place as at the end of the relevant reporting period.

Fair value hierarchy level 1

Where securities and derivatives are traded on active markets with sufficient liquidity, and hence where stock market prices or executable broker quotations are available, these prices are used to determine the fair value.

In principle, the redemption price published by the respective investment company (*Kapitalverwaltungsgesellschaft*) is used to determine the fair value of unconsolidated investment funds.

Fair value hierarchy level 2

Fair values for insufficiently liquid bearer bonds are determined on the basis of discounted future cash flows (the discounted cash flow model). Instrument-specific and issuer-specific interest rates are used for discounting. Interest rates are determined from market prices of similar liquid securities, selected according to criteria in the categories of issuer, sector, rating, rank and maturity.

If no price is observable on an active market for long-term financial liabilities, fair value is determined by discounting the contractually agreed cash flows using an interest rate at which comparable liabilities could have been issued. Any existing collateralisation structure is taken into account, such as that used for *Pfandbriefe*, for example.

Provided that they are not products traded on the stock market, derivative financial instruments are in principle measured using standard valuation models, such as the Black-Scholes model, the SABR model, the Bachelier model, the G1PP model or the local volatility model. The models are always calibrated using observable market data. 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.

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

Interest rate swaps and interest rate/currency swap agreements as well as unlisted interest rate futures are measured on the basis of the discounted cash flow model using the market interest rates applying to the remainder of the term of the financial instruments. The tenor structures of the individual interest rates are taken into account by means of separate forward interest rate curves. Interest rate swaps are discounted using the respective currency-specific interest rate curve. 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 at the reporting date on the basis of the future rates, which in turn are quoted by FX swap points in the market.

The fair value of deposits and borrowings is determined by discounting future cash flows using discount rates that are customary for comparable financial transactions with similar terms on liquid or less liquid markets.

The fair value of receivables and liabilities from genuine securities repurchase agreements is calculated by discounting future cash flows using the corresponding discount rate adjusted for credit risk. The discount rate applied takes into account the collateral criteria agreed at the time of concluding the genuine securities repurchase agreement.

Fair value hierarchy level 3

Fair values of amounts due from banks or due from customers relating to lending business are determined using the present value method. Future cash flows from receivables are discounted at a risk-adjusted market rate based on the categories of borrower, sector, rating, rank and maturity.

Bonds and debt securities reported under assets measured at amortised cost are bonds and securitisation positions for which DekaBank had no current market price information as at the reporting date. Bonds are valued either on the basis of indicative quotations or using the discounted cash flow model, applying risk-adjusted market interest rates. The differing credit ratings of issuers are taken into account through appropriate adjustments in the discount rates.

The bonds and debt securities in the designated at fair value category and reported under financial assets at fair value essentially relate to plain vanilla bonds and non-synthetic securitisation positions. Since 2009, the Bank has been winding down the latter whilst safeguarding assets. Determining the fair value of plain vanilla bonds involves the use of credit spreads that are not observable in the market. Assuming an average uncertainty of five basis points relating to the credit spreads, the fair value of the plain vanilla bonds could have been €1.8m higher or lower.

The fair value of non-synthetic securitisation positions in the portfolio is determined on the basis of indicative quotations or via spreads derived from indicative quotations for comparable bonds. These quotations are obtained from various brokers as well as from market price providers, such as S&P. The bid-ask spreads from the available price indications for the individual securitisation positions were used to determine a cautious bid-ask spread, which was used as an estimate for price sensitivity. Using this bid-ask spread, a variation range of 0.64 percentage points averaged across the portfolio was obtained. On this basis the market value of the securitisation positions concerned could have been €1.0m lower or higher.

The bonds and debt securities presented within the financial assets at fair value line item in the held for trading category are plain vanilla bonds measured using credit spreads not observable in the market. Assuming an average uncertainty of five basis points relating to the credit spreads, the market value of the positions concerned could have been €4.8m higher or lower.

The Bank also allocates to level 3 a limited number of equity and interest rate derivatives or issues with embedded equity and interest rate derivatives, for example if unobservable valuation parameters are used which are significant for their valuation. For equity and interest rate derivatives whose valuation requires correlations, the Bank typically uses historical correlations with the respective share prices or interest rate fixings, or modifications to these. Using a 14.0% shift in the correlations, the sensitivity of the equity option positions concerned as at 31 December 2016 was around €–4.6m. The size of the shift was determined on the basis of relevant historical fluctuations in the correlations. For interest rate derivatives based on an index spread, the sensitivity in terms of the correlation between the relevant reference indices is mapped via shifts in the model parameters. The resulting change in the correlation is approximately +7%, giving rise to a measurement difference of €–0.1m. There are also equity derivatives with a maturity that is longer than the equivalent (based on the underlying) exchange-traded equity (index) options. The temporal extrapolation uncertainty amounts to an equity vega of 1.1, resulting in a value of approximately €0.8m as at 31 December 2016. For credit default swaps (CDS) and credit linked notes with a longer maturity than CDS spreads quoted on the market, a temporal extrapolation uncertainty of five basis points is assumed. As at 31 December 2016, this resulted in a value of €0.6m.

Under subordinated liabilities, DekaBank essentially reports positions of a hybrid capital nature which are allocated to level 3 due to the absence of indications of spreads tradable on the market. They are valued using the discounted cash flow model based on an interest rate which is checked at the relevant reporting date.

As at 31 December 2016, 99.9% of bonds and other fixed-income securities allocated to level 3 for which an external rating was available were rated as investment grade.

The fair values of amounts due to banks or due to customers relating to issuing business are determined using the present value method. The future cash flows of the liabilities are discounted at a risk-adjusted market rate that is based on DekaBank's credit risk. For the valuation of collateralised issues, the collateral structure is also taken into account. The interest rate for a comparable unsecured issue is adjusted according to the collateralisation category and percentage.

Performance of financial instruments in fair value hierarchy level 3

The movement in level 3 assets carried at fair value on the balance sheet is shown in the table below. This is based on fair values without accrued interest:

€m	Debt securities, other fixed-interest securities and loan receivables	Shares and other non fixed interest securities	Interest-rate-related derivatives	Share-price and other price-related derivatives	Total
As at 1 January 2015	2,545.5	9.9	0.5	6.6	2,562.5
Additions through purchase	2,425.5	–	1.1	0.0	2,426.6
Disposals through sale	703.4	–	–	–	703.4
Maturity/repayments	1,955.0	5.2	–	0.1	1,960.3
Transfers					
To level 3	88.9	–	14.6	1.4	104.9
From level 3	52.0	4.5	0.5	–	57.0
Changes arising from measurement/disposal[1]					
Recognised in profit or loss	45.6	−0.2	–	−0.3	45.1
Recognised in other comprehensive income	–	–	–	–	–
As at 31 December 2015	**2,395.1**	**0.0**	**15.7**	**7.6**	**2,418.3**
Movement in unrealised gains or losses in respect of assets in the portfolio at the balance sheet date[2]	**14.7**	**–**	**–**	**−0.3**	**14.4**
Additions through purchase	1,084.5	0.1	16.3	0.5	1,101.4
Disposals through sale	620.5	0.1	–	0.0	620.6
Maturity/repayments	548.6	–	–	6.2	554.8
Transfers					
To level 3	332.0	–	0.8	1.9	334.7
From level 3	195.6	–	15.7	1.4	212.7
Changes arising from measurement/disposal[1]					
Recognised in profit or loss	48.6	–	–	1.0	49.6
As at 31 December 2016	**2,495.5**	**0.0**	**17.1**	**3.4**	**2,516.0**
Movement in unrealised gains or losses in respect of assets in the portfolio at the balance sheet date[2]	**39.0**	**–**	**–**	**1.0**	**40.0**

[1] Movements arising from the measurement/disposal of level 3 financial instruments are recognised through profit or loss within net interest income, trading profit or loss and profit or loss on financial instruments designated at fair value.

[2] Unrealised profits or losses from level 3 financial instruments are presented within net interest income, trading profit or loss and profit or loss on financial instruments designated at fair value.

The movement in level 3 liabilities carried at fair value on the balance sheet is shown in the table below. This is based on fair values without accrued interest.

€m	Securities short portfolios	Interest-rate-related derivatives	Share-price and other price-related derivatives	Issues	Total
As at 1 January 2015	**1.1**	**0.6**	**10.3**	**237.8**	**249.8**
Additions through purchase	–	18.9	0.6	–	19.5
Disposals through sale	–	0.2	–	–	0.2
Additions through issues	–	–	–	384.2	384.2
Maturity/repayments	–	–	3.0	172.5	175.5
Transfers					
To level 3	–	14.0	0.6	149.1	163.7
From level 3	1.1	0.4	–	43.8	45.3
Changes arising from measurement/disposal[1]					
Recognised in profit or loss	–	–	0.3	26.6	26.9
Recognised in other comprehensive income	–	–	–	–	–
As at 31 December 2015	**–**	**32.9**	**8.2**	**528.2**	**569.3**
Movement in unrealised gains or losses in respect of liabilities in the portfolio at the balance sheet date[2]	**–**	**–**	**0.3**	**26.6**	**26.9**
Additions through purchase	–	2.2	0.8	23.8	26.9
Disposals through sale	–	–	0.1	–	0.1
Additions through issues	–	–	–	346.7	346.7
Maturity/repayments	–	–	7.1	184.5	191.6
Transfers					
To level 3	–	64.1	0.0	52.7	116.8
From level 3	–	14.0	0.5	72.2	86.8
Changes arising from measurement/disposal[1]					
Recognised in profit or loss	–	–38.3	–0.0	–10.7	–49.0
Recognised in other comprehensive income	–	–	–	–	–
As at 31 December 2016	**–**	**123.5**	**1.3**	**705.3**	**830.1**
Movement in unrealised gains or losses in respect of liabilities in the portfolio at the balance sheet date[2]	**–**	**–38.3**	**–**	**–12.4**	**–50.7**

[1] Movements arising from the measurement/disposal of level 3 financial instruments are recognised through profit or loss within net interest income, trading profit or loss and profit or loss on financial instruments designated at fair value.
[2] Unrealised profits or losses from level 3 financial instruments are presented within net interest income, trading profit or loss and profit or loss on financial instruments designated at fair value.

During the reporting period, positive market values from bonds, other fixed-income securities and loan receivables amounting to €195.6m and negative market values from issues/trading issues in the amount of €72.2m were transferred from level 3 to level 2. Furthermore, positive market values from bonds, other fixed-income securities and loan receivables amounting to €332.0m were migrated to level 3. This was due to a more detailed analysis of the market data used for valuation.

Within the Deka Group, reclassifications between the different levels of the fair value hierarchy are deemed to have taken place as at the end of the relevant reporting period.

Measurement processes for financial instruments in fair value hierarchy level 3

For all transactions in the trading book and the banking book, DekaBank essentially performs a daily valuation independent of trading operations, which provides the basis for the calculation of results. Responsibility for the valuation process lies with Risk Control, the different tasks being assigned to various specialist teams as part of the valuation process. The models used for theoretical valuation of transactions must undergo validation and initial acceptance before they are employed in the valuation process. Adequacy checks are carried out on a regular basis as part of normal operations. The main steps in the process are the provision of market data that is independent of trading activities, parameterisation, performance of the valuation and quality assurance. The steps and processes are each designed and conducted by one team.

Finance and Risk Control analyse and provide commentary on any significant changes noted during the valuation carried out independently of trading activities. The economic profits and losses determined on the basis of this independent valuation are made available to the trading units on a daily basis for the trading book and on at least a weekly basis for the banking book. To support the process, a committee has been established within Risk Control which plans and coordinates the medium to long-term development of the valuation process.

Valuation models are always used where no reliable external prices are available. External price quotations are obtained from established providers such as stock exchanges and brokers. Every price is subject to a monitoring process which assesses its quality and establishes whether it is appropriate for use in the valuation process. Unless the level of quality is assessed as inadequate, a theoretical valuation is carried out.

For financial instruments whose present value is determined using a valuation model, the prices needed to calibrate the model are either found directly, independently of trading, or are checked via an independent price verification process (IPV) to ensure they are consistent with the market, and are corrected if necessary. The valuation models used are either validated by Risk Control or implemented in Risk Control independently of trading. The appropriateness of the models is examined by Risk Control on a regular basis, and at least once a year. The results of the examination form the basis for a joint recommendation agreed between Risk Control, Finance and the trading units on whether the valuation models should continue to be used or require further development.

When new financial instruments are introduced, existing valuation processes are examined to determine whether they can be applied to the new instrument and modified or expanded if necessary. Valuation processes may be expanded to include new price sources or apply new valuation models. Where new models are introduced, Risk Control checks for the presence of model risks as part of the implementation and validation process. If model risks are present, a corresponding model reserve is taken into account.

66 Offsetting financial assets and liabilities

The following table contains disclosures concerning the effects of offsetting on the Deka Group's consolidated balance sheet. Offsetting is currently only carried out for receivables and liabilities from genuine securities repurchase agreements and derivative transactions.

31 Dec 2016				Associated amounts not offset in the balance sheet		
€m	Financial assets/ liabilities (gross)	Offset financial assets/ liabilities	Financial assets/liabilities shown in the balance sheet (net)	Collateral – securities	Collateral – cash	Net amount
Assets						
Receivables arising from securities repurchase agreements (eligible for offsetting)	5,650.7	3,248.6	2,402.1	2,402.1	–	–
Receivables arising from securities repurchase agreements (not eligible for offsetting)	11,551.1	–	11,551.1	11,551.1	–	–
Derivatives (eligible for offsetting)	6,960.9	6,960.9	–	–	–	–
Derivatives (not eligible for offsetting)	7,539.2	–	7,539.2	184.3	1,209.2	6,145.7
Total	**31,701.9**	**10,209.5**	**21,492.4**	**14,137.5**	**1,209.2**	**6,145.7**
Liabilities						
Liabilities arising from securities repurchase agreements (eligible for offsetting)	4,734.7	3,248.6	1,486.1	1,486.1	–	–
Liabilities arising from securities repurchase agreements (not eligible for offsetting)	3,907.1	–	3,907.1	3,907.1	–	–
Derivatives (eligible for offsetting)	6,841.5	6,841.5	–	–	–	–
Derivatives (not eligible for offsetting)	8,673.7	–	8,673.7	125.9	3,011.5	5,536.3
Total	**24,157.0**	**10,090.1**	**14,066.9**	**5,519.1**	**3,011.5**	**5,536.3**

31 Dec 2015 €m	Financial assets/ liabilities (gross)	Offset financial assets/ liabilities	Financial assets/liabilities shown in the balance sheet (net)	Associated amounts not offset in the balance sheet Collateral – securities	 Collateral – cash	Net amount
Assets						
Receivables arising from securities repurchase agreements (eligible for offsetting)	6,201.2	3,043.8	3,157.4	3,157.4	–	−0.0
Receivables arising from securities repurchase agreements (not eligible for offsetting)	14,231.3	–	14,231.3	14,231.3	–	–
Derivatives (eligible for offsetting)	4,648.4	4,605.2	43.2	–	–	43.2
Derivatives (not eligible for offsetting)	10,528.3	–	10,528.3	268.1	1,173.8	9,086.4
Total	**35,609.2**	**7,649.0**	**27,960.2**	**17,656.8**	**1,173.8**	**9,129.6**
Liabilities						
Liabilities arising from securities repurchase agreements (eligible for offsetting)	6,514.2	3,043.8	3,470.4	3,470.4	–	−0.0
Liabilities arising from securities repurchase agreements (not eligible for offsetting)	6,457.9	–	6,457.9	6,457.9	–	–
Derivatives (eligible for offsetting)	4,820.0	4,771.0	49.0	49.0	–	–
Derivatives (not eligible for offsetting)	11,562.8	–	11,562.8	149.1	2,580.1	8,833.6
Total	**29,354.9**	**7,814.8**	**21,540.1**	**10,126.4**	**2,580.1**	**8,833.6**

In principle, the Deka Group enters into securities repurchase agreements and derivative transactions eligible for offsetting on the basis of standardised framework contracts with central counterparties. Offsetting is carried out provided the offsetting agreements defined in the contracts are in accordance with the offsetting criteria under IAS 32.42.

Transactions that are subject to offsetting agreements but which do not meet the offsetting criteria under IAS 32.42, or which are carried out on a gross basis as part of normal business activities, are reported gross. In such cases, all claims and obligations are essentially only offset and settled on a net basis if the counterparty does not meet its payment obligations (liquidation netting).

67 Information on the quality of financial assets

Impaired exposure and provisions for loan losses by risk segment

The table below shows the gross carrying values of receivables and securities in the loans and receivables and held to maturity categories which have been written down by means of specific provisions or provisions for country risks. Off-balance sheet exposures for which a provision for loan losses has been established using provisions for individual risks are also included in the written-down gross or net exposure.

€m	Financial institu-tions	Trans-port and export finance	Energy and utility infrastruc-ture	Property risks	Public infrastruc-ture	Corpo-rates	Other	Total 31 Dec 2016	Total 31 Dec 2015
Impaired gross loan volume[1]	–	565.2	12.3	–	97.2	44.5	1.2	720.4	519.2
Collateral[2]	–	163.6	0.0	–	–	–	–	163.6	130.6
Impaired net loan volume[1]	–	401.6	12.3	–	97.2	44.5	1.2	556.8	388.6
Provisions for loan losses	15.8	281.7	9.7	1.6	40.9	37.1	1.3	388.1	264.6
Specific valuation allowances	–	266.6	3.6	–	40.1	36.7	0.2	347.2	202.9
Provisions	–	0.1	–	–	–	–	0.2	0.3	0.4
Portfolio valuation allowances for country risks	–	4.0	1.0	–	–	–	–	5.0	3.9
Portfolio valuation allowances for credit-worthiness risk	15.8	11.0	5.1	1.6	0.8	0.4	0.9	35.6	57.4

[1] Gross and net loan volumes impaired by specific and country valuation allowances. The figures shown represent the gross carrying value of the impaired financial assets at the respective balance sheet date.
[2] Recognition of measureable collateral after discounts

In addition to provisions for loan losses of €334.3m (previous year: €226.2m) in the lending business, provisions for loan losses also include provisions for financial investments amounting to €53.8m (previous year: €38.4m).

As at the reporting date, the total amount of loans in default but not written down amounted to €44.5m (previous year: €36.1m).

Non-performing exposures

Non-performing exposures under the definition introduced by the EBA for supervisory reporting (FINREP) amounted to €807.3m (previous year: €698.5m). This relates to exposures that are more than 90 days overdue or for which the Bank expects that the borrower will not satisfy its loan obligations in full. It is also mandatory to classify exposures as non-performing where the CRR regulations (Article 178) require them to be classified as in default or where specific provisions have been made against them. In addition, exposures subject to successful restructuring measures may only be classified as performing after a recovery period of at least one year has elapsed.

The following table shows the breakdown of non-performing exposures by risk segment.

€m	Transport and export finance	Energy and utility infrastructure	Property risks	Public infrastructure	Corpo-rates	Other	Total 31 Dec 2016	Total 31 Dec 2015
Non-performing exposures[1]	599.0	37.5	–	97.2	72.4	1.2	807.3	698.5
Collateral[2]	185.8	–	–	–	27.3	–	213.1	196.8
Provision for loan losses	272.2	5.6	–	40.1	36.7	0.4	355.0	215.5
Specific valuation allowances	266.6	3.6	–	40.1	36.7	0.2	347.2	202.9
Provisions	0.1	0.0	–	–	–	0.2	0.3	0.4
Portfolio valuation allowances for country risks	4.0	–	–	–	–	–	4.0	3.9
Portfolio valuation allowances for credit-worthiness risk	1.5	2.0	–	–	–	–	3.5	8.3

[1] The values shown represent the gross carrying value of the credit-risk bearing financial assets classified as non-performing.
[2] Recognition of measureable collateral after discounts

The amounts stated for the securities presented are the values that the Deka Group calculates for internal purposes. These amounts are generally determined on the basis of the underlying market value, taking into account appropriate discounts for general resale risks and allowing for future volatility in market values. The amounts stated for guarantees and sureties are primarily based on the creditworthiness of the party providing the collateral. As at the balance sheet date, the market value of the physical collateral provided stood at €297.7m; guarantees and sureties received amounted to €20.0m.

Exposures with forbearance measures

The Deka Group concludes extension or restructuring agreements with borrowers experiencing financial difficulties if there is a prospect of recovery. Responsibility for the monitoring and management of such deferred or restructured exposures rests with the Monitoring Committee, in accordance with the general rules on default monitoring (see the risk report). Furthermore, creditworthiness-related restructuring measures or deferral agreements represent objective evidence of an impairment. Relevant exposures are tested individually for impairment, and where necessary specific provisions are recognised (see note [15]). Where restructuring measures entail such extensive contractual amendments that a new asset exists from an accounting perspective, this is presented on the balance sheet as a disposal of the original asset and acquisition of a new asset. If there is a difference between the carrying value of the asset to be disposed of and the fair value of the asset acquired, the difference is posted directly to profit or loss.

Exposures are no longer classified as forborne if all of the following conditions are met:

- More than two years (probation period) have elapsed since the exposure ceased to be classified as non-performing.
- Regular payments for a significant amount of the interest and principal due have been made during the probation period.
- None of the exposures is more than 30 days overdue.

As at the balance sheet date, there were €798.8m (previous year: €803.7m) of deferred or restructured exposures requiring classification as forborne exposures under the EBA definition. Risk provisions in place in respect of these exposures amounted to €309.6m (previous year: €181.2m).

The following table shows the breakdown of forborne exposures by risk segment. The vast majority of forborne exposures have already been classified as non-performing exposures and are therefore also shown in the table of non-performing exposures by risk segment.

€m	Transport and export finance	Energy and utility infrastructure	Property risks	Public infrastructure	Corporates	Other	Total 31 Dec 2016	Total 31 Dec 2015
Forborne exposures[1]	630.4	71.2	–	97.2	–	–	798.8	803.7
of which performing	52.4	42.3	–	–	–	–	94.7	231.9
of which non-performing	578.0	28.9	–	97.2	–	–	704.1	571.8
Collateral[2]	188.2	8.6	–	–	–	–	196.8	251.2
Provision for loan losses	267.1	2.4	–	40.1	–	–	309.6	181.2
Specific valuation allowances	265.0	–	–	40.1	–	–	305.1	166.8
Portfolio valuation allowances for credit-worthiness risk	2.1	2.4	–	–	–	–	4.5	14.4

[1] The values shown represent the gross carrying value of the credit-risk bearing financial assets classified as non-performing.
[2] Recognition of measureable collateral after discounts; as at the balance sheet date, the market value of the physical collateral provided amounted to €295.1m.

Key ratios for non-performing and forborne exposures

%	2016	2015
NPE rate at the reporting date (Ratio of non-performing exposures to maximum credit risk)	0.96	0.67
NPE coverage ratio, including collateral, at the reporting date (Ratio of provisions for loan losses, including collateral, to non-performing exposures)	70.37	59.01
Forborne exposures ratio at the reporting date (Ratio of forborne exposures to maximum credit risk)	0.95	0.77

The maximum credit risk underlying the ratio of non-performing and forborne exposures is determined based on IFRS 7.36a, using credit-risk bearing financial assets and the corresponding off-balance sheet liabilities. Financial instruments measured at amortised cost are stated at gross carrying value, credit-risk bearing financial instruments measured at fair value are stated at fair value, irrevocable lending commitments are stated at the respective amount of the commitment and sureties and guarantees are stated at nominal value. On this basis, as at the reporting date the maximum credit risk was €84.1bn (previous year: €104.7bn).

68 Credit exposure in individual European countries

The following table shows the exposure to selected European countries from an accounting perspective. In addition to receivables and securities, this comprises credit linked notes issued by the Bank that are referenced to these countries as well as credit default swaps from both the protection buyer and protection seller perspectives:

	31 Dec 2016			31 Dec 2015		
€m	**Nominal[1]**	**Carrying value**	**Fair value**	**Nominal[1]**	**Carrying value**	**Fair value**
Ireland						
Debt securities (held to maturity category)	4.0	4.6	4.5	–	–	–
Debt securities (held for trading category)	–	–	–	30.0	31.4	31.4
Credit default swaps (protection seller)	15.0	0.4	0.4	–	–	–
Credit default swaps (protection buyer)	–16.0	–0.4	–0.4	–	–	–
Italy						
Debt securities (held to maturity category)	10.0	11.3	11.2	–	–	–
Debt securities (designated at fair value category)	88.7	89.1	89.1	–	–	–
Debt securities (held for trading category)	–	–	–	265.0	265.1	265.1
Credit default swaps (protection seller)	162.1	–0.5	–0.5	90.5	0.7	0.7
Credit default swaps (protection buyer)	–91.5	0.9	0.9	–60.5	–0.3	–0.3
Credit linked notes[2] (held for trading category)	–10.0	–10.1	–10.1	–20.0	–19.9	–19.9
Portugal						
Credit default swaps (protection seller)	17.0	–2.3	–2.3	17.0	–1.5	–1.5
Credit default swaps (protection buyer)	–17.0	2.3	2.3	–17.0	1.5	1.5
Spain						
Debt securities (held to maturity category)	5.0	6.0	6.0	–	–	–
Debt securities (designated at fair value category)	39.2	39.8	39.8	–	–	–
Debt securities (held for trading category)	190.0	239.3	239.3	95.0	95.8	95.8
Securities forward contracts	–35.0	–4.9	–4.9	–35.0	–1.9	–1.9
Total return swap (protection buyer)	–155.0	–4.0	–4.0	–	–	–
Credit default swaps (protection seller)	42.8	0.3	0.3	35.1	0.1	0.1
Credit default swaps (protection buyer)	–16.0	–0.3	–0.3	–3.0	–0.0	–0.0
Credit linked notes[2] (held for trading category)	–7.8	–8.1	–8.1	–17.8	–18.1	–18.1
Total	**225.5**	**363.4**	**363.2**	**379.3**	**352.9**	**352.9**

[1] The nominal values of the protection buyer transactions are shown with a negative sign.
[2] The figure shown is the fair value of credit linked notes issued by the Bank and relating to a liability of the respective country.

In addition to exposure to the government of Spain, the Bank also has exposure to Spanish banks. This mainly relates to bonds with a nominal value of €301.2m (previous year: €490.7m), including bonds in the held to maturity category with a nominal value of €55.0m (previous year: €25.0m). The remaining bonds are measured at fair value through profit or loss. There are also receivables from securities repurchase agreements and collateralised securities lending transactions amounting to €1,151.5m (previous year: €505.2m), offset by liabilities from securities repurchase agreements and collateralised securities lending transactions amounting to €83.2m (previous year: €406.6m). The receivables and liabilities were allocated to the loans and receivables and other liabilities categories, respectively.

DekaBank's exposure to Italian banks results primarily from bonds with a nominal value of €222.5m (previous year: €449.3m). This includes bonds in the held to maturity category with a nominal value of €53.6m (previous year: €175.0m). The remaining bonds are measured at fair value through profit or loss. There are also receivables from securities repurchase agreements and collateralised securities lending transactions amounting to €107.8m (previous year: €37.5m), offset by liabilities from securities repurchase agreements and collateralised securities lending transactions amounting to €134.1m (previous year: €0.0m). The receivables and liabilities were allocated to the loans and receivables and other liabilities categories, respectively. In addition to direct exposure, indirect exposures also exist through credit default swaps referencing these counterparties. Protection seller positions with a nominal value of €48.6m (previous year: €19.5m) are offset by protection buyer positions with a nominal value of €107.6m (previous year: €288.0m).

DekaBank also holds loan receivables with a value of €212.8m (previous year: €235.3m) allocated to the loans and receivables category in respect of companies that are majority state-owned by Russia. There is no exposure to Ukraine. As was also the case at the end of the previous year, there was no exposure to borrowers classified under Greek country risk at the end of 2016.

69 Derivative transactions

The Deka Group uses derivative financial instruments for trading purposes and to hedge interest rate risks, currency risks, and equity and other price risks. The following table shows the portfolio of derivative financial instruments by type of risk hedged and by contract type:

	Nominal value		Positive fair values [1]		Negative fair values [1]	
€m	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**
Interest rate risks **OTC products**						
Interest rate swaps	433,632.2	426,970.8	11,945.0	10,823.6	10,953.3	9,777.3
Forward rate agreements	24,291.0	38,198.0	1.4	1.7	1.3	1.7
Interest rate options						
Purchases	9,683.3	8,587.5	242.7	204.1	63.4	51.9
Sales	12,805.2	10,602.7	148.1	116.3	441.6	342.6
Caps, floors	8,633.9	3,050.8	45.5	19.8	27.7	8.9
Other interest rate contracts	2,268.5	2,715.0	23.0	7.0	198.8	143.8
Stock exchange traded products						
Interest rate futures/options	10,768.4	15,426.7	2.4	2.6	5.0	2.3
Sub-total	**502,082.5**	**505,551.5**	**12,408.1**	**11,175.1**	**11,691.1**	**10,328.5**
Currency risks **OTC products**						
Foreign exchange future contracts	14,870.0	15,623.6	226.0	113.9	217.2	127.7
(Interest rate) currency swaps	10,163.9	9,101.8	364.5	233.7	1,323.6	1,419.9
Sub-total	**25,033.9**	**24,725.4**	**590.5**	**347.6**	**1,540.8**	**1,547.6**
Share and other price risks **OTC products**						
Share forward contracts	–	63.1	–	1.7	–	1.8
Share options						
Purchases	948.0	2,720.6	336.5	2,120.0	–	–
Sales	6,388.7	22,430.1	–	–	725.7	2,515.2
Credit derivatives	10,866.0	11,250.7	93.7	106.3	77.1	112.1
Other forward contracts	2,674.0	1,796.5	52.6	28.8	15.6	11.1
Stock exchange traded products						
Share options	18,530.7	23,741.4	1,021.1	1,399.8	1,469.9	1,867.3
Share futures	2,813.4	283.7	12.2	15.9	56.4	7.1
Sub-total	**42,220.8**	**62,286.1**	**1,516.1**	**3,672.5**	**2,344.7**	**4,514.6**
Total	**569,337.2**	**592,563.0**	**14,514.7**	**15,195.2**	**15,576.6**	**16,390.7**
Net amount presented on the statement of financial position			**7,479.4**	**10,571.6**	**8,600.9**	**11,611.8**

[1] fair values are shown before offsetting against variation margin paid or received

The lower amount carried on the balance sheet compared with fair values is due to allowance for the variation margin from transactions with central counterparties. Within assets, the variation margin received reduced the fair values by a total of around €7bn (previous year: €4.6bn). Conversely, the variation margin paid reduced fair values within liabilities by a total of around €7.0bn (previous year: €4.8bn).

The following table shows nominal values and positive and negative market values for derivative transactions by counterparty:

	Nominal value		Positive fair values [1]		Negative fair values [1]	
€m	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**
Banks in the OECD	204,051.8	203,590.7	5,898.4	6,751.9	7,120.7	7,721.3
Public offices in the OECD	8,117.4	25,988.1	1,171.0	970.0	172.2	355.7
Other counterparties	357,168.0	362,984.2	7,445.3	7,473.3	8,283.7	8,313.7
Total	**569,337.2**	**592,563.0**	**14,514.7**	**15,195.2**	**15,576.6**	**16,390.7**

[1] Fair values are shown before offsetting against variation margin paid or received.

70 Breakdown by remaining maturity

Remaining maturity is seen as the time between the reporting date and the contractually agreed maturity of the receivable or liability or their partial payment amount. Financial assets and liabilities at fair value were in principle recognised according to contractual maturity. However, financial instruments in the held for trading sub-category were deemed to have a maximum remaining maturity of one year due to the intention to trade. Equity instruments were allocated to the due on demand and indefinite term maturity bracket. Financial investments that serve business operations on an ongoing basis as part of ordinary business activity but do not have a contractually agreed maturity are not included in this breakdown.

€m	31 Dec 2016	31 Dec 2015	Change
Asset items			
Due from banks			
Due on demand and indefinite term	3,534.5	5,137.8	–1,603.3
Up to 3 months	4,418.9	6,788.9	–2,370.0
Between 3 months and 1 year	6,326.5	6,153.8	172.7
Between 1 year and 5 years	4,862.3	7,649.3	–2,787.0
More than 5 years	1,511.7	1,364.2	147.5
Due from customers			
Due on demand and indefinite term	1,603.4	1,082.7	520.7
Up to 3 months	1,967.7	1,456.6	511.1
Between 3 months and 1 year	4,287.9	4,793.0	–505.1
Between 1 year and 5 years	10,147.9	10,185.3	–37.4
More than 5 years	4,834.0	4,990.4	–156.4
Financial assets at fair value			
Of which non-derivative assets			
Due on demand and indefinite term	2,103.7	3,967.8	–1,864.1
Up to 3 months	2,679.3	5,545.3	–2,866.0
Between 3 months and 1 year	9,277.0	17,620.4	–8,343.4
Between 1 year and 5 years	12,245.0	10,205.1	2,039.9
More than 5 years	1,147.4	3,108.4	–1,961.0
Of which derivative assets			
Up to 3 months	456.2	1,375.2	–919.0
Between 3 months and 1 year	5,770.0	8,160.0	–2,390.0
Between 1 year and 5 years	330.0	244.6	85.4
More than 5 years	894.6	681.0	213.6
Positive market values from derivative hedging instruments			
Up to 3 months	0.2	1.8	–1.6
Between 3 months and 1 year	0.3	0.2	0.1
Between 1 year and 5 years	6.0	20.3	–14.3
More than 5 years	22.2	86.7	–64.5
Financial investments			
Due on demand and indefinite term	0.1	0.0	0.1
Up to 3 months	148.1	50.6	97.5
Between 3 months and 1 year	479.8	394.4	85.4
Between 1 year and 5 years	1,720.5	2,068.4	–347.9
More than 5 years	581.4	386.0	195.4

€m	31 Dec 2016	31 Dec 2015	Change
Liability items			
Due to banks			
Due on demand and indefinite term	2,487.9	3,564.0	−1,076.1
Up to 3 months	6,545.0	10,878.1	−4,333.1
Between 3 months and 1 year	4,511.5	6,289.1	−1,777.6
Between 1 year and 5 years	2,605.6	1,893.0	712.6
More than 5 years	1,212.4	1,459.9	−247.5
Due to customers			
Due on demand and indefinite term	11,772.4	11,424.4	348.0
Up to 3 months	6,582.3	10,688.8	−4,106.5
Between 3 months and 1 year	1,530.1	4,077.8	−2,547.7
Between 1 year and 5 years	1,990.7	1,622.8	367.9
More than 5 years	1,543.7	1,648.2	−104.5
Securitised liabilities			
Up to 3 months	2,655.2	10,585.0	−7,929.8
Between 3 months and 1 year	1,239.7	4,309.2	−3,069.5
Between 1 year and 5 years	6,039.8	3,981.6	2,058.2
More than 5 years	1,141.4	1,046.0	95.4
Financial liabilities at fair value			
Of which non-derivative assets			
Due on demand and indefinite term	289.3	792.1	−502.8
Up to 3 months	1,477.7	1,775.6	−297.9
Between 3 months and 1 year	14,892.5	11,290.6	3,601.9
Between 1 year and 5 years	845.5	922.6	−77.1
More than 5 years	448.0	758.1	−310.1
Of which derivative assets			
Up to 3 months	563.5	1,505.3	−941.8
Between 3 months and 1 year	6,399.2	8,450.7	−2,051.5
Between 1 year and 5 years	967.4	948.7	18.7
More than 5 years	636.4	671.1	−34.7
Negative market values from derivative hedging instruments			
Up to 3 months	3.9	0.9	3.0
Between 3 months and 1 year	1.2	2.9	−1.7
Between 1 year and 5 years	19.9	27.8	−7.9
More than 5 years	9.4	4.4	5.0
Subordinated capital			
Up to 3 months	206.1	29.5	176.6
Between 3 months and 1 year	26.4	40.0	−13.6
Between 1 year and 5 years	77.7	282.5	−204.8
More than 5 years	808.3	797.7	10.6

Other information

71 Capital management

The objectives of capital management are to ensure adequate capital to carry out the business strategy determined by the Board of Management, to achieve an appropriate return on equity and to comply with regulatory capital requirements (for more information, see note [72]).

The analysis of DekaBank's risk-bearing capacity is conducted chiefly based on an approach focused on the liquidity perspective. Economic capital corresponds to the risk capacity defined in the risk strategy. In principle, DekaBank determines the overall risk across all significant risk types that impact income and also includes those risks not taken into consideration for regulatory purposes, for example business risk. Overall risk is measured as the amount of capital that is highly likely to be sufficient to cover all losses from the main high risk positions within a year and at any time. 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.

To assess risk-bearing capacity on a differentiated basis, DekaBank distinguishes between the risk capacity, the maximum risk appetite and the risk appetite. Under a liquidation approach, the risk capacity essentially consists of equity capital according to IFRS, earnings components and positions of a hybrid capital nature (subordinated capital) and is available in its entirety as a formal overall risk limit to guarantee the Bank's risk-bearing capacity. Based on this, a capital buffer is reserved for stress scenarios, which corresponds at a minimum to the level of subordinated capital components. The primary control parameter and hence the basis of the risk capital allocated as risk appetite is referred to as the maximum risk appetite, which results from deducting the buffer for stress scenarios from the risk capacity.

Compliance with regulatory capital requirements is managed primarily through the Common Equity Tier 1 capital ratio. For the utilisation of risk-weighted assets (RWAs) – an essential component of this key ratio – guidelines are stipulated for the next three years with regard to both the Group and the individual business divisions, as part of the annual planning process. Within the framework of this overall plan, in principle the business divisions must not exceed the target RWAs specified in the medium-term planning. In the event that the target is exceeded, measures to reduce the RWAs are examined. In addition, in order to assess capital adequacy, regular internal credit risk stress tests are conducted on the RWAs.

When managing regulatory capital requirements, particular attention is paid to assessing future regulatory developments. This includes analysing current recommendations from supervisory committees and proposed legislation on an ongoing basis, and assessing the impact of such proposals on capital and RWA positions. The findings are incorporated into the annual planning process.

72 Regulatory capital (own funds)

Since 1 January 2014, regulatory capital and capital adequacy have been calculated in accordance with the regulation on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation – CRR) and pursuant to the directive on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (Capital Requirements Directive IV – CRD IV).

The figures presented below are shown in accordance with the transitional provisions set out in CRR/CRD IV as well as pursuant to full application of the new regulations. Equity is calculated based on the figures from the IFRS consolidated financial statements. The composition of capital and reserves is shown in the following table:

	31 Dec 2016		31 Dec 2015	
€m	CRR/CRD IV (without transitional provisions)	CRR/CRD IV (with transitional provisions)	CRR/CRD IV (without transitional provisions)	CRR/CRD IV (with transitional provisions)
Subscribed capital	286	286	286	286
Less repurchased Common Equity Tier 1 instruments	95	57	95	38
Open reserves	4,310	4,310	4,095	4,095
Other comprehensive income	131	89	160	–
Prudential filters	4	1	76	78
Deductions from Common Equity Tier 1 items	389	234	337	209
Common Equity Tier 1 (CET 1) capital	**3,978**	**4,216**	**3,866**	**4,213**
Additional Tier 1 capital instruments	474	474	474	474
Silent capital contributions	–	31	–	37
Deductions from Additional Tier 1 items	–	157	–	218
Additional Tier 1 (AT1) capital	**474**	**348**	**474**	**292**
Tier 1 capital	**4,451**	**4,564**	**4,339**	**4,505**
Subordinated liabilities	838	838	855	855
Deductions from Tier 2 items	–	36	–	41
Tier 2 (T2) capital	**838**	**801**	**855**	**814**
Own funds	**5,289**	**5,366**	**5,194**	**5,319**

In the presentation of figures applying the transitional provisions, accumulated other comprehensive income is reported separately for the 2016 financial year. In 2015, accumulated other comprehensive income was included in deductions from Common Equity Tier 1 items for the transitional figures.

The increase in Tier 1 capital is mainly due to the reinvestment of profits from the 2015 financial year. The reduction in relation to Tier 2 capital is attributable to regulatory amortisation in accordance with Article 64 of the CRR.

Credit risk is essentially determined according to the Internal Ratings Based approach. The capital charges for specific market risk and CVA risk are determined by using standard methods. General market risk is determined using an internal model. Operational risk is measured using the Advanced Measurement Approach (AMA). Each of the above-mentioned risk factors must be backed by own funds. The items subject to a capital charge are shown in the following table:

	31 Dec 2016		31 Dec 2015	
€m	CRR/CRD IV (without transitional provisions)	CRR/CRD IV (with transitional provisions)	CRR/CRD IV (without transitional provisions)	CRR/CRD IV (with transitional provisions)
Credit risk	15,038	15,038	15,391	15,391
Market risk	4,478	4,478	11,884	11,884
Operational risk	2,887	2,887	2,185	2,185
CVA risk	1,411	1,411	1,727	1,727
Risk-weighted assets (total risk exposure amount)	**23,813**	**23,813**	**31,188**	**31,188**

The adequacy of the capital and reserves is to be calculated by expressing Common Equity Tier 1 capital (CET1 ratio), Tier 1 capital (T1 ratio) and own funds (Total capital ratio) as a percentage of the total risk exposure amount. The table below shows the key ratios for the Deka Group:

	31 Dec 2016		31 Dec 2015	
%	**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 capital ratio	16.7	17.7	12.4	13.5
Tier 1 capital ratio	18.7	19.2	13.9	14.4
Total capital ratio	22.2	22.5	16.7	17.1

Regulatory own funds requirements have been met at all times during the reporting period. The ratios for the Deka Group are considerably higher than the statutory minimum requirements.

73 Contingent and other liabilities

The off-balance sheet liabilities of the Deka Group essentially consist of potential future liabilities.

€m	31 Dec 2016	31 Dec 2015	Change
Irrevocable lending commitments	702.3	1,185.6	–483.3
Other liabilities	102.7	104.8	–2.1
Total	**805.0**	**1,290.4**	–485.4

Irrevocable lending commitments refer to credit lines granted but not drawn down and term credit lines. The amounts stated reflect the potential liabilities if the credit lines granted were to be used in full. The risk provision reported on the balance sheet for off-balance sheet liabilities has been deducted from the respective amounts.

As in the previous year, other financial liabilities include payment obligations of €0.1m and subsequent funding obligations of €5.1m (previous year: €5.1m) to unconsolidated companies or companies outside the Group. There is an additional funding obligation for the security reserve of the *Landesbanken* and *Girozentralen* of €97.6m (previous year: €99.4m). By 2024, the assets held in the security reserve must be built up to the statutory target level of 0.8% of the deposits held by members of the security reserve. Each year the security reserve collects contributions from its members for this purpose.

The guarantees provided by DekaBank are deemed to be financial guarantees under IFRS, which are stated net in accordance with IAS 39. The nominal amount of the guarantees in place as at the reporting date was €0.1bn (previous year: €0.1bn).

74 Assets transferred or received as collateral

The transfer of assets as collateral for own liabilities is shown in the following table:

€m	31 Dec 2016	31 Dec 2015	Change
Carrying value of transferred collateral securities			
Under *Pfandbrief* Act	4,160.8	4,449.8	–289.0
For refinancing purposes with Deutsche Bundesbank	1,062.4	2,975.8	–1,913.4
From transactions on German and foreign futures exchanges	–	100.2	–100.2
From repurchase agreements	989.3	1,805.0	–815.7
From securities lending transactions	4,103.7	6,610.1	–2,506.4
From triparty transactions	3,284.9	8,782.3	–5,497.4
From other securities transactions	146.6	129.2	17.4
Loan and securities collateral	**13,747.7**	**24,852.4**	–11,104.7
Cash collateral relating to securities lending and repurchase agreements	613.7	233.3	380.4
Cash collateral relating to derivative transactions	3,138.5	2,780.4	358.1
Cash collateral	**3,752.2**	**3,013.7**	738.5
Total	**17,499.9**	**27,866.1**	–10,366.2

Collateral received for repurchase agreements and securities lending transactions as well as other securities transactions, which may be repledged or resold even without the default of the party providing the collateral, amounts to €57.1bn (previous year: €59.8bn). Of this amount, €36.1bn (previous year: €35.6bn) was resold or repledged.

75 Financial instruments transferred but not derecognised

The Deka Group transfers financial assets while retaining the material risks and rewards arising from these assets. Such a transfer takes place mainly in the context of genuine securities repurchase and securities lending transactions. The assets continue to be reported in the consolidated balance sheet.

€m	31 Dec 2016	31 Dec 2015	Change
Carrying value of non-derecognised securities for			
Genuine repurchase agreements			
Held to maturity	21.7	30.7	−9.0
Financial assets at fair value	968.2	1,771.4	−803.2
Securities lending transactions			
Held to maturity	27.0	–	27.0
Financial assets at fair value	1,569.9	652.8	917.1
Other sales without commercial disposal			
Loans and receivables	558.7	523.9	34.8
Financial liabilities at fair value	2.1	5.4	−3.3
Total	**3,147.6**	**2,984.2**	163.4

Liabilities of €1.5bn (previous year: €2.3bn) were reported for financial instruments transferred but not derecognised.

76 Letter of comfort

Except in the case of political risk, DekaBank shall ensure that DekaBank Deutsche Girozentrale Luxembourg S.A. can meet its commitments. DekaBank Deutsche Girozentrale Luxembourg S.A. has in turn issued a letter of comfort in favour of

- Deka International S.A., Luxembourg and
- International Fund Management S.A., Luxembourg.

77 Information on interests in subsidiaries

Composition of the Deka Group

In addition to DekaBank, as parent company, a total of 10 (previous year: 9) domestic and 7 (previous year: 9) foreign affiliated companies in which DekaBank directly or indirectly holds the majority of voting rights are included in the consolidated financial statements. In addition, 9 (previous year: 9) structured entities controlled by the Deka Group are included in the scope of consolidation.

A total of 15 (previous year: 14) affiliated companies controlled by the Deka Group were not consolidated, because they are of minor significance for the presentation of the net assets, financial position and results of operations of the Group. The interests held in these subsidiaries are reported under financial investments (see note [46]). Where they are of minor significance to the consolidated financial statements, structured entities are also not consolidated (see list of shareholdings in note [79]). To determine their significance for the presentation of the net assets, financial position and results of operations of the Group, investment funds are assessed using both qualitative and quantitative criteria. The units in unconsolidated investment funds are recognised at fair value through profit or loss. These are shown on the balance sheet under financial assets at fair value (note [44]).

During the 2016 financial year, the Deka Group recorded a loss of €0.5m on the sale of shares in DKC Deka Kommunal Consult GmbH, Düsseldorf, under profit or loss on financial investments.

Significant restrictions

Significant restrictions on the Group's ability to access or use assets and settle liabilities arise in particular as a result of the contractual, legal and regulatory requirements that apply to financial institutions (see note [72] "Regulatory capital (own funds)" and note [74] with regard to restrictions associated with the placement of cash, loans or securities as collateral to cover the Group's own liabilities arising, for example, from genuine repurchase agreements, securities lending transactions and OTC derivative transactions).

Banks are also obliged to maintain mandatory deposits in accounts held with their national central banks (minimum reserve requirement). The extent of the mandatory minimum reserve is determined by the central banks (see note [40]).

Interests in joint arrangements and associates

DekaBank has interests in three jointly controlled entities and one associated company. Equity investments in S-Pensions-Management GmbH and Dealis Fund Operations GmbH i.L (joint ventures) are included in the consolidated financial statements using the equity method. Although DekaBank exercises significant influence over them, the Group did not consolidate two affiliated companies because they are of minor significance for the presentation of the net assets, financial position and results of operations of the Group.

Joint ventures and associates which have been accounted for using the equity method can be found in the list of shareholdings (see note [79]).

The table below presents an overview of the summarised financial information for all associated companies and joint ventures that are considered to be individually immaterial and that are accounted for using the equity method. The amounts shown relate to the Group's holdings in these companies. In principle, the equity method is applied on the basis of the last available financial statements of the investee, provided that these are not more than three months old.

	Associated companies		Joint ventures[1]	
€m	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**
Carrying value of equity participation	**–**	**4.4**	**6.9**	**7.9**
Profit or loss from continuing business operations	–	–	1.3	2.2
Profit or loss after tax from discontinued operations	–	–	–	–
Other comprehensive income	–	–	–1.2	–3.3
Total income[2]	**–**	**–**	**0.1**	**–1.1**

[1] At the time of the preparation of the DekaBank's consolidated financial statements, there were no current financial statements available for S-PensionsManagement GmbH for the 2016 reporting year. For this reason, the measurement under the equity method used forecast results, which took into account the impact of any significant transactions and other events that have arisen since the last reporting date of S-PensionsManagement GmbH, or that might be expected to occur.
[2] This does not include the distributions shown in net interest income.

78 Information on interests in unconsolidated structured entities

According to the definition in IFRS 12, an entity is classified as structured if it has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity.

The Deka Group engages in business relationships with structured entities as part of its ordinary business activities. Structured entities are often characterised by their restricted activities and a narrow and well-defined business objective. Furthermore, a structured entity may also be characterised by the absence of sufficient equity to finance its activities without subordinated financial support.

The Deka Group is deemed to have an interest in an unconsolidated structured entity if companies in the Deka Group are exposed to variable returns from a structured entity's activities as a result of either contractual or non-contractual involvement with that entity, but where the entity concerned does not require consolidation under the provisions of IFRS 10. An interest can be evidenced by the holding of debt or equity instruments, liquidity arrangements, guarantees and various derivative financial instruments via which the Bank takes on risks arising from the structured entity. For the purposes of IFRS 12, an interest in an unconsolidated structured entity does not generally exist solely because of a typical customer-supplier relationship between Deka Group companies and a structured entity.

The Deka Group has relationships with entities that were classified as unconsolidated structured entities based on the definition under IFRS 12 and according to criteria set internally by the Group. Unconsolidated structured entities involved in the following business activities were identified:

Investment funds

Part of the Deka Group's core business involves providing securities and real estate investments to private and institutional investors. As a result, companies in the Deka Group play a role, directly or indirectly, in setting up fund structures as part of their ordinary business activities, and are involved in determining the purpose and design of such structures. In addition, the Group's activities cover the whole of the usual value chain for fund business. In return, the Group receives appropriate commission, for example in the form of management and custodial fees. The Group also invests in holdings in investment funds owned by the Group in the context of start-up financing, thereby providing those funds with liquidity. Investment funds are therefore considered to be structured entities within the meaning of IFRS 12. Funds are primarily financed by issuing unit certificates (equity). To a limited extent, funds can also take up loans. The assets held by the fund are generally used as collateral for the fund's external financing activities. Fund assets held in Group-owned and external investment funds amount to €248.2bn (previous year: €234.4bn). This amount includes all fund assets and also the fund assets of third parties in which the Deka Group has an interest within the meaning of IFRS 12, irrespective of the percentage of the Deka Group's unit holding. Fund assets calculated exclusively for the purposes of the IFRS 12 disclosures do not correspond to the key indicator total customer assets used for management purposes.

Securitisation companies (structured capital market credit products)

The Group has investments in a number of securitisation companies. These include the non-strategic securitisation products in the former Liquid Credits portfolio acquired by the Bank, which has been allocated to non-core business since 2009 and is being wound down while safeguarding assets. The issuing companies are generally financed by issuing tradable securities whose value is dependent on the performance of the vehicle's assets or which are collateralised using the vehicle's assets. For all securitisations held by DekaBank, funding at matching maturities is in place for the assets held by the securitisation company. The vast majority of securitisation products at DekaBank are in the designated at fair value category and are reported under financial assets at fair value on the balance sheet; this means that the earnings performance of these securitisations is recognised in full through profit or loss in the Group's consolidated financial statements.

The table below provides an overview of the maximum risk of loss to which the Deka Group is exposed from the securitisation positions it holds, shown by type of securitisation transaction and by seniority of the tranche held. In addition, the table includes potential losses to be absorbed by other creditors who rank above Deka Group. The total volume of issued securities from the securitisation companies classified as structured amounts to €3.5bn (previous year: €5.1bn).

	Subordinated interest		Mezzanine interest		Senior interest		Most Senior interest	
€m	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**
ABS								
Maximum default risk	–	–	2.2	2.5	–	–	0.5	0.7
Potential losses of prior-ranking creditors[1]	–	–	19.8	19.8	–	–	–	–
CLO								
Maximum default risk	–	–	114.2	131.2	23.3	50.0	9.1	16.7
Potential losses of prior-ranking creditors[1]	–	–	261.8	340.6	–	–	–	–
CMBS								
Maximum default risk	–	–	24.2	25.7	4.5	8.3	2.3	5.4
Potential losses of prior-ranking creditors[1]	–	–	228.4	255.6	–	–	–	–
RMBS								
Maximum default risk	–	–	89.6	100.9	9.0	9.4	23.2	34.2
Potential losses of prior-ranking creditors[1]	21.2	22.5	122.3	128.3	23.5	23.5	–	–

[1] nominal values

Lending business

According to the definition, if a company is founded specifically to finance or operate the assets for which a loan is made, and the design of that company is such that it is not controlled by means of voting or similar rights, then this constitutes a structured entity for DekaBank. A holding in a structured entity may also exist if rights that are contractually agreed as part of the loan agreement (for example intellectual property or trademark rights) are converted into co-determination rights in the event of deteriorating creditworthiness. An operating company can, for example, become a structured entity if relevant business activities start to be governed predominantly by the provisions of the loan agreement. As part of the classification performed in accordance with IFRS 12, structured entities were identified within the transport and export finance, energy and utility infrastructure, and real estate risk segments. The financing concerned is generally collateralised by charges on property, aircraft mortgages, ship mortgages, and sureties and guarantees. When determining the size of the financing classified as structured, the balance sheet totals of the current available financial statements or the market value of the (co-)financed asset were used. This amounts to €2.0bn (previous year: €2.7bn).

The table below shows the carrying values of assets and liabilities recognised on the balance sheet that are related to interests in unconsolidated structured entities. The table also includes the maximum possible exposure to loss associated with these interests.

	Investment funds		Lending business[1]		Securitisation companies [1]	
€m	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**
Asset items						
Due from customers	1,126.3	1,251.3	267.6	329.4	–	–
Financial assets at fair value	1,318.5	3,130.3	0.2	–	300.0	379.7
Financial investments	–	–	4.7	5.1	2.1	5.3
Total asset items	**2,444.8**	**4,381.6**	**272.5**	**334.5**	**302.1**	**385.0**
Liability items						
Due to customers	9,781.8	10,322.9	0.0	0.0	–	–
Financial liabilities at fair value	862.7	2,570.4	–	–	–	–
Total liability items	**10,644.5**	**12,893.3**	**0.0**	**0.0**	**–**	**–**
Contingent and other liabilities						
Irrevocable lending commitments	39.9	5.3	10.4	12.5	–	–
Other liabilities	–	–	6.2	6.5	–	–
Total contingent and other liabilities	**39.9**	**5.3**	**16.6**	**19.0**	**–**	**–**
Maximum exposure to loss	**2,484.7**	**4,386.9**	**289.1**	**353.5**	**302.1**	**385.0**

[1] Including loan loss provision

The maximum exposure to loss sets out the highest possible loss that the Bank could sustain in connection with its interests in unconsolidated structured entities. The figure presented does not take into account the probability of such a loss being incurred.

- The maximum possible exposure to loss from interests in unconsolidated structured entities that arise as a result of on-balance-sheet transactions corresponds to the carrying value or fair value of the respective balance sheet figure.
- According to the definition, the maximum possible exposure to loss from interests in unconsolidated structured entities that arise from off-balance-sheet transactions, for example from guarantees or lending commitments, corresponds to the maximum guaranteed amount, or the amount of the potential liability that would arise if the credit line that is extended were to be fully utilised.

In addition, provisions are established for investment funds with formal guarantees (see note [57]).

The maximum exposure to loss is a gross figure, i.e. it does not take into account the effects of collateral received or hedging transactions.

In connection with interests in unconsolidated structured entities, the Deka Group received interest income, commission income and income from the revaluation and disposal of interests in unconsolidated structured entities during the year under review.

Sponsored unconsolidated structured entities

All circumstances must be considered when determining whether a company from the Deka Group should be categorised as the sponsor of a structured entity. An unconsolidated structured entity in which the Bank has no interest as defined by IFRS 12 is regarded as sponsored if it was established for the benefit of a company in the Deka Group, and the Group has played an active role in determining the purpose and design of the unconsolidated structured entity. The Group is also considered to be a sponsor if a name used by the unconsolidated structured entity – for example its company name or the name of a product – is connected to a company in the Deka Group.

No relationships with sponsored unconsolidated structured entities existed during the year under review. As at 31 December 2016, there were no sponsored unconsolidated entities.

79 List of shareholdings

DekaBank Deutsche Girozentrale, Frankfurt/Berlin, is entered in Commercial Register A at the District Court of Frankfurt am Main under number HRA 16068. The following information on shareholdings is based on the supplementary requirements of German law pursuant to Section 315a of the German Commercial Code. Therefore, no comparative information in respect of the previous period is presented.

Consolidated subsidiaries (affiliated companies):

Name, registered office	Share in fund assets in %
bevestor GmbH, Frankfurt/Main (formerly: Deka Vermögensmanagement GmbH)	100.00
Deka Beteiligungs GmbH, Frankfurt/Main	100.00
Deka Far East Pte. Ltd., Singapur	100.00
Deka Immobilien GmbH, Frankfurt/Main	100.00
Deka Immobilien Investment GmbH, Frankfurt/Main	100.00
Deka Immobilien Luxembourg S.A., Luxembourg	100.00
Deka International S.A., Luxembourg	100.00
Deka Investment GmbH, Frankfurt/Main	100.00
Deka Real Estate Lending k.k., Tokyo	100.00
Deka Real Estate Services USA Inc., New York	100.00
DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg	100.00
International Fund Management S.A., Luxembourg	100.00
Landesbank Berlin Investment GmbH, Berlin	100.00
S Broker Management AG, Wiesbaden	100.00
S Broker AG & Co. KG, Wiesbaden	100.00
WestInvest Gesellschaft für Investmentfonds mbH, Düsseldorf	99.74 [1]
WIV GmbH & Co. Beteiligungs KG, Frankfurt/Main	94.90

[1] 5.1% are held by WIV GmbH & Co. Beteiligungs KG

Consolidated subsidiaries (structured entities):

Name, registered office	Share in fund assets in %
A-DGZ-FONDS, Frankfurt/Main	100.00
A-DGZ 2-FONDS, Frankfurt/Main	100.00
A-DGZ 5-FONDS, Frankfurt/Main	100.00
A-Treasury 2000-FONDS, Frankfurt/Main	100.00
A-Treasury 93-FONDS, Frankfurt/Main	100.00
DDDD-FONDS, Frankfurt/Main	100.00
Deka Treasury Corporates-FONDS, Frankfurt/Main	100.00
S Broker 1 Fonds, Frankfurt/Main	100.00
Masterfonds S Broker, Frankfurt/Main	100.00

Joint ventures and associated companies accounted for under the equity method:

Name, registered office	Share in capital in %	Equity in € thousand[1)]	Net income in € thousand[1)]
Joint ventures			
S-PensionsManagement GmbH, Cologne	50.00	48,255.0	–65,158.3
Dealis Fund Operations GmbH, Frankfurt/Main	50.00	29,800.4	1,220.8

[1)] amounts reported in financial statements for the year ended 31 December 2015

Joint ventures and associated companies not accounted for under the equity method:

Name, registered office	Share in capital in %
Joint ventures	
Deka-Neuburger Institut für wirtschaftsmathematische Beratung GmbH, Frankfurt/Main	50.00
Associated companies	
DPG Deutsche Performancemessungs-Gesellschaft für Wertpapierportfolios mbH, Frankfurt/Main	20.00

Unconsolidated subsidiaries (affiliated companies):

Name, registered office	Share in capital in %
Datogon S.A., Luxembourg	100.00
Deka Immobilien Beteiligungsgesellschaft mbH, Frankfurt/Main	100.00
Deka Investors Spezial InvAG m.v.K. und TGV, Frankfurt/Main Teilgesellschaftsvermögen Deka Investors Unternehmensaktien	100.00
Deka Treuhand GmbH, Frankfurt/Main	100.00
Deka Treuhand Erwerbsgesellschaft mbH, Frankfurt/Main	100.00
Deka Vermögensverwaltungs GmbH, Frankfurt/Main	100.00
Deka Verwaltungs GmbH, Frankfurt/Main	100.00
Deka Vorratsgesellschaft 03 mbH, Frankfurt/Main	100.00
Deka Vorratsgesellschaft 04 mbH, Frankfurt/Main	100.00
Deka Vorratsgesellschaft 05 mbH, Frankfurt/Main	100.00
Europäisches Kommunalinstitut S.à.r.l., Luxembourg	100.00
LBG Leasing Beteiligungs-GmbH, Frankfurt/Main	100.00
Perfeus S.A., Luxembourg	100.00
Privates Institut für quantitative Kapitalmarktforschung der DekaBank GmbH, Frankfurt/Main	100.00
WIV Verwaltungs GmbH, Frankfurt/Main	94.90

Unconsolidated structured entities:

Name, registered office	Fund assets in €m	Share in capital/ fund assets in %
Deka-BR 45, Frankfurt/Main	6.3	100.00
Deka-Relax 70, Frankfurt/Main	0.5	100.00
Deka-Relax 50, Frankfurt/Main	0.5	100.00
Deka-Relax 30, Frankfurt/Main	0.5	100.00
Teilgesellschaftsvermögen Deka Darlehen, Frankfurt/Main	70.7	99.04
Deka-Multi Asset Ertrag, Luxembourg	21.3	98.52
Deka-PB ManagerMandat, Frankfurt/Main	53.9	97.83
Deka-Multimanager defensiv, Frankfurt/Main	0.5	94.06
Deka-Industrie 4.0, Luxembourg	10.7	92.63
Deka Deutsche Boerse EUROGOV® Germany 10+ UCITS ETF, Frankfurt/Main	45.8	86.81
Deka-Immobilien PremiumPlus-Private Banking, Luxembourg	32.3	86.64
Deka-BasisStrategie Aktien, Frankfurt/Main	29.1	82.47
Deka Eurozone Rendite Plus 1-10 UCITS ETF, Frankfurt/Main	23.5	80.00
Mix-Fonds: Optimierung, Luxembourg	7.5	68.68
Deka Oekom Euro Nachhaltigkeit UCITS ETF, Frankfurt/Main	27.1	65.81
Deka MSCI Europe ex EMU UCITS ETF, Frankfurt/Main	47.0	63.98
Deka-Globale Renten High Income, Frankfurt/Main	47.2	62.62
Deka-Global Balance, Frankfurt/Main	31.7	59.47
Deka-Multimanager Strategien PB, Luxembourg	0.9	55.71
Deka EURO iSTOXX ex Fin Dividend+ UCITS ETF, Frankfurt/Main	172.0	48.41
Deka MSCI Japan UCITS ETF, Frankfurt/Main	36.7	48.35
Deka-ImmobilienNordamerika, Frankfurt/Main	90.9	47.51
Deka-Multimanager ausgewogen, Frankfurt/Main	1.1	45.77
Deka-EuroFlex Plus, Luxembourg	125.7	43.63
Deka-CorporateBond High Yield Euro 1-4, Frankfurt/Main	47.4	42.97
Deka-Kirchen Balance, Frankfurt/Main	52.1	30.72
Mix-Fonds: Select ChancePlus, Luxembourg	3.0	30.32
Deka-CorporateBond Global Hedged Euro, Frankfurt/Main	73.3	29.22
Deka Deutsche Börse EUROGOV® Germany 3-5 UCITS ETF, Frankfurt/Main	96.8	25.89
Deka-Immobilien Fokus Prag, Frankfurt/Main	195.8	22.56
Deka-RentenStrategie Global, Frankfurt/Main	121.1	20.44
HSBC Trinkaus Kurzläufer, Düsseldorf	23.5	20.01
Comtesse DTD Ltd., London	–	9.99[1]

[1] differing voting rights 25.1%

80 Related party disclosures

The Deka Group has business dealings with related parties. These include DekaBank's shareholders, subsidiaries that are not consolidated on materiality grounds, joint ventures, associated companies and their respective subsidiaries, individuals in key positions and their relatives, and companies controlled by these individuals. For the purposes of this disclosure, unconsolidated own mutual funds and special funds where the Deka Group's holding exceeds 10.0% as at the reporting date are shown as subsidiaries, associates or other related parties in accordance with their equity holding.

Natural persons in key positions deemed to be related parties under IAS 24 are the members of the Board of Management and Administrative Board of DekaBank as the parent company. Personnel expenses in respect of the persons concerned are shown in the table below:

	Board of Management		Administrative Board	
€m	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Short-term benefits	3.2	3.1	0.7	0.7
Post-employment benefits	1.8	1.8	–	–
Other long-term benefits	2.6	2.8	–	–
Total	**7.6**	**7.7**	**0.7**	**0.7**

Remuneration to employees' representatives on the Administrative Board made separately from their Administrative Board activities was at current market terms.

Transactions are carried out with related parties under normal market terms and conditions as part of the ordinary business activities of the Deka Group. These relate, inter alia, to loans, call money, time deposits and derivatives. The liabilities of the Deka Group to mutual funds and special funds essentially comprise balances with banks from the temporary investment of liquid funds. The tables below show the extent of these transactions.

Business relationships with shareholders of DekaBank and unconsolidated subsidiaries:

	Shareholders		Subsidiaries	
€m	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**
Asset items				
Due from customers	45.0	45.0	5.5	1.1
Financial assets at fair value	–	–	28.0	43.3
Other assets	–	–	0.5	0.6
Total asset items	**45.0**	**45.0**	**34.0**	**45.0**
Liability items				
Due to customers	39.7	43.6	49.3	53.9
Total liability items	**39.7**	**43.6**	**49.4**	**53.9**

Business relationships with joint ventures, associated companies and other related parties:

	Joint ventures/ associated companies		Other related parties	
€m	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**
Asset items				
Due from customers	0.3	–	–	0.2
Financial assets at fair value	–	–	2.9	27.4
Other assets	0.2	0.9	0.3	0.4
Total asset items	**0.5**	**0.9**	**3.2**	**28.0**
Liability items				
Due to customers	115.6	582.1	399.7	645.7
Financial liabilities at fair value	33.3	31.5	0.2	1.8
Total liability items	**148.9**	**613.6**	**399.9**	**647.5**

81 Average number of staff

	2016			2015		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Full-time employees	2,443	1,033	3,476	2,292	985	3,277
Part-time and temporary employees	152	655	807	137	611	748
Total	**2,595**	**1,688**	**4,283**	**2,429**	**1,596**	**4,025**

82 Remuneration of Board members

€	31 Dec 2016	31 Dec 2015
Total remuneration of Board members		
Board of Management	5,317,132	4,293,060
Administrative Board	711,833	709,500
Total remuneration of former Board members and their dependents		
Board of Management	5,350,116	5,370,846
Provisions for pensions for former Board members and their dependents	61,289,500	61,331,365

The emoluments to active members of the Board of Management presented above include all remuneration and benefits in kind paid in the respective financial year, including variable components that are attributable to previous years and are thus dependent on business performance in earlier periods.

No loans or advances were granted to members of the Board of Management or Administrative Board. No guarantees or other commitments were entered into in favour of such persons.

In the 2016 financial year, variable remuneration elements that are dependent on future performance amounting to €2.5m (previous year: €4.2m) were committed to current and former members of the Board of Management.

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

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

Total emoluments include deferred variable remuneration components from previous years payable to active members of the Board of Management amounting to €1.9m and to former members of the Board of Management amounting to €1.4m. Of this amount, the entitlement of active board members includes €0.5m for the 2015 financial year, €0.6m for the 2014 financial year, €0.6m for the 2013 financial year and €0.2m for the 2012 financial year.

83 Auditor's fees

The following fees for the auditors of the consolidated financial statements were recorded as expenses in the reporting year:

€m	31 Dec 2016	31 Dec 2015	Change
Fees for			
Year-end audit services	2.5	2.5	–
Other auditing services	1.0	1.0	–
Tax advisory services	0.1	0.1	–
Other services	–	0.1	−0.1
Total	**3.6**	**3.7**	−0.1

84 Additional miscellaneous information

Post balance sheet events

No major developments of particular significance occurred after the 2016 balance sheet date.

Recommendation regarding appropriation of net profit

The proposed appropriation of net profit for the 2016 financial year amounting to €70,748,126.66 is as follows:

- Distribution of a dividend amounting to €67,296,998.54, i.e. 35.1% on existing shares in the Bank's subscribed capital (€191,729,340.56) that are entitled to dividends as at 31 December 2016.
- Distribution of a special dividend amounting to €3,451,128.12. i.e. 1.8 % on existing shares in the Bank's subscribed capital (€191,729,340.56) that are entitled to dividends as at 31 December 2016.

The consolidated financial statements were approved for publication on 24 February 2017 by the Board of Management of DekaBank.

Assurance of the Board of Management

We declare that, to the best of our knowledge, the consolidated 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 Group and that the management report conveys a true and fair view of the business performance including the business results and position of the Group and suitably presents the material risks and opportunities and likely development of the Group.

Frankfurt/Main, 24 February 2017

DekaBank
Deutsche Girozentrale

The Board of Management

Rüdiger | Dr. Stocker

Better | Dr. Danne | Müller

Auditor's Report

We have audited the consolidated financial statements prepared by the DekaBank Deutsche Girozentrale AöR, Berlin/ Frankfurt am Main, comprising statement of profit or loss and comprehensive income, balance sheet, statement of changes in equity, statement of cash flow and notes to the financial statements, together with the group management report for the business year from January 1, 2016 to December 31, 2016.The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [*Handelsgesetzbuch* "German Commercial Code"] (and supplementary provisions of the shareholder agreement/articles of incorporation) are the responsibility of the parent company`s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB (and supplementary provisions of the shareholder agreement/articles of incorporation) and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with the German statutory requirements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, February 27, 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Pukropski Wirtschaftsprüfer	Fox Wirtschaftsprüfer

Other information

Shareholders, subsidiaries and associated companies

Shareholders of DekaBank *(as of 1 March 2017)*

DSGV ö.K.[1)]	**50%**
thereof:	
Savings Banks Association Baden-Wuerttemberg	7.71%
Rhineland Savings Banks and Giro Association	6.56%
Savings Banks Association Lower Saxony	6.46%
Savings Banks Association Bavaria	6.32%
Savings Banks Association Westphalia-Lippe	6.18%
Savings Banks and Giro Association Hesse-Thuringia	5.81%
Savings Banks Association Rhineland-Palatinate	3.21%
Savings Banks Association Berlin/Landesbank Berlin	1.90%
East German Savings Banks Association	1.83%
Savings Banks and Giro Association for Schleswig-Holstein	1.78%
Savings Banks Association Saar	1.37%
Hanseatic Savings Banks and Giro Association	0.91%
Deka Erwerbsgesellschaft mbH & Co. KG	**50%**
thereof:	
Savings Banks Association Bavaria	8.40%
Savings Banks Association Baden-Wuerttemberg	8.14%
East German Savings Banks Association	8.00%
Rhineland Savings Banks and Giro Association	7.66%
Savings Banks and Giro Association Hesse-Thuringia	5.47%
Savings Banks Association Westphalia-Lippe	3.69%
Savings Banks Association Lower Saxony	2.04%
Savings Banks Association Rhineland-Palatinate	1.87%
Savings Banks Association Berlin/Landesbank Berlin	1.57%
Savings Banks and Giro Association for Schleswig-Holstein	1.48%
Hanseatic Savings Banks and Giro Association	1.27%
Savings Banks Association Saar	0.43%

[1)] in relation to voting stake (subject to rounding differences)

Subsidiaries and associated companies of DekaBank *(as of 1 March 2017)*

Securities business division	
Deka Investment GmbH, Frankfurt/Main	100.0%
Landesbank Berlin Investment GmbH, Berlin	100.0%
DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg	100.0%
Deka International S.A., Luxembourg	100.0%
International Fund Management S.A., Luxembourg	100.0%
DekaTreuhand GmbH, Frankfurt/Main	100.0%
S Broker AG & Co. KG, Wiesbaden	100.0%
S Broker Management AG, Wiesbaden	100.0%
bevestor GmbH, Frankfurt/Main	100,0 %
Privates Institut für quantitative Kapitalmarktforschung der DekaBank GmbH, Frankfurt/Main	100.0%
S-PensionsManagement GmbH, Cologne	50.0%

Sparkassen Pensionsfonds AG, Cologne	50.0%
Sparkassen Pensionskasse AG, Cologne	50.0%
Deka Neuburger Institut für wirtschaftsmathematische Beratung GmbH, Frankfurt/Main	50.0%
Dealis Fund Operations GmbH i.L., Frankfurt/Main	50.0%
Heubeck AG, Cologne	30.0%
DPG Deutsche Performancemessungs-Gesellschaft für Wertpapierportfolios mbH, Frankfurt/Main	20.0%
Dealis Fund Operations S.A., Luxembourg	5.0%
Erste-Sparinvest Kapitalanlagegesellschaft mbH, Vienna	2.9%
Real Estate business division	
Deka Immobilien Investment GmbH, Frankfurt/Main	100.0%
Deka Immobilien GmbH, Frankfurt/Main	100.0%
Deka Real Estate Lending K.K., Tokyo	100.0%
Deka Beteiligungs GmbH, Frankfurt/Main	100.0%
Deka Vermögensverwaltungs GmbH, Frankfurt/Main	100.0%
Deka Verwaltungs GmbH, Frankfurt/Main	100.0%
Deka Immobilien Luxembourg S.A., Luxembourg	100.0%
Deka Immobilien Beteiligungsgesellschaft mbH, Frankfurt/Main	100.0%
Deka Investors Spezialinvestmentaktiengesellschaft mit veränderlichem Kapital und Teilgesellschaftsvermögen, Frankfurt/Main	100,0 %
WestInvest Gesellschaft für Investmentfonds mbH, Düsseldorf	99.7%
WIV GmbH & Co. Beteiligungs KG, Frankfurt/Main	94.9%
Deka-S-PropertyFund No. 1 Beteiligungs GmbH & Co. KG, Frankfurt/Main	11.6%
Capital Markets business division	
True Sale International GmbH, Frankfurt/Main	7.7%
Financing business division	
Global Format GmbH & Co. KG, Munich	18.8%
HELICON Verwaltungsgesellschaft mbH & Co. Immobilien KG, Pullach	8.3%
RSU Rating Service Unit GmbH & Co. KG, Munich	6.5%
Corporate Centre Corporate Development	
Deka Treuhand Erwerbsgesellschaft mbH, Frankfurt/Main	100.0%
Liquiditäts-Konsortialbank GmbH i.L., Frankfurt/Main	2.1%

Associated companies are held directly or indirectly. The Group has further holdings which are, however, of minor significance.

Administrative Board and Board of Management of DekaBank
(as of 1 March 2017)

Administrative Board

Georg Fahrenschon
Chairman
President of the German Savings Banks and Giro Association e. V., Berlin,
President of the German Savings Banks and Giro Association – public law entity, Berlin
Chairman of the General and Nominating Committee
Chairman of the Remuneration Supervision Committee

Helmut Schleweis
First Deputy Chairman
Chairman of the Management Board of Sparkasse Heidelberg, Heidelberg
First Deputy Chairman of the General and Nominating Committee
First Deputy Chairman of the Remuneration Supervision Committee
Member of the Audit and Risk Committee

Thomas Mang
Second Deputy Chairman
President of the Savings Banks Association Lower Saxony, Hanover
Chairman of the Credit Committee
Second Deputy Chairman of the General and Nominating Committee
Second Deputy Chairman of the Remuneration Supervision Committee

Further representatives selected by the Shareholders' Meeting

Michael Bräuer
Chairman of the Management Board of Sparkasse Oberlausitz-Niederschlesien, Zittau
Member of the General and Nominating Committee
Member of the Remuneration Supervision Committee

Michael Breuer
President of the Rhineland Savings Banks and Giro Association, Düsseldorf
Member of the Audit and Risk Committee

Rainer Burghardt
Chairman of the Management Board of Kreissparkasse Herzogtum Lauenburg, Ratzeburg

Carsten Claus
Chairman of the Management Board of Kreissparkasse Böblingen, Böblingen
Member of the Audit and Risk Committee

Dr. Michael Ermrich
Managing President of the East German Savings Banks Association, Berlin

Dr. Johannes Evers
Chairman of the Management Board of Berliner Sparkasse and President of the Savings Banks Association Berlin, Berlin
Deputy Chairman of the Credit Committee

Dr. Rolf Gerlach
President of the Savings Banks Association Westphalia-Lippe, Münster
Chairman of the Audit and Risk Committee
Member of the General and Nominating Committee
Member of the Remuneration Supervision Committee

Gerhard Grandke
Managing President of the Savings Banks and Giro Association Hesse-Thuringia, Frankfurt/Main
Member of the General and Nominating Committee
Member of the Remuneration Supervision Committee

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

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

Ludwig Momann
(from 17 March 2016)
Chairman of the Management Board of Sparkasse Emsland, Meppen
Member of the Credit Committee

Dr. Ulrich Netzer
President of the Savings Banks Association Bavaria, Munich

Hans-Werner Sander
(to 31 December 2016)
Chairman of the Management Board of Sparkasse Saarbrücken, Saarbrücken

Peter Schneider
President of the Savings Banks Association Baden-Wuerttemberg, Stuttgart
Member of the General and Nominating Committee
Member of the Remuneration Supervision Committee

Georg Sellner
Chairman of the Management Board of Stadt- und Kreis-Sparkasse Darmstadt, Darmstadt
Deputy Chairman of the Audit and Risk Committee

Walter Strohmaier
Chairman of the Management Board of Sparkasse Niederbayern-Mitte, Straubing
Member of the General and Nominating Committee
Member of the Audit and Risk Committee
Member of the Remuneration Supervision Committee

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

Alexander Wüerst
Chairman of the Management Board of Kreissparkasse Köln, Cologne
Member of the General and Nominating Committee
Member of the Remuneration Supervision Committee

Employee Representatives appointed by the Staff Committee

Michael Dörr
Chairman of the Staff Committee, DekaBank Deutsche Girozentrale, Frankfurt/Main

Erika Ringel
Member of the Staff Committee, DekaBank Deutsche Girozentrale, Frankfurt/Main

Representatives appointed by the Federal Organisation of Central Municipal Organisations (in an advisory capacity)

Dr. Stephan Articus
(to 31 May 2016)
Executive Director of the German Association of Cities, Berlin
Member of the General and Nominating Committee
Member of the Remuneration Supervision Committee

Helmut Dedy
(from 1 June 2016)
Chief Executive Officer of the German Association of Cities, Berlin

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

Roland Schäfer
Mayor of the City of Bergkamen and President of the German Association of Towns and Municipalities, Berlin
Member of the General and Nominating Committee
Member of the Remuneration Supervision Committee

Board of Management

Michael Rüdiger
CEO

Dr. Georg Stocker
Deputy CEO

Manuela Better

Dr. Matthias Danne

Martin K. Müller

Executive Managers

Manfred Karg

Stefan Keitel
(from 1 January to 31 December 2016)

Seats on supervisory bodies

Michael Rüdiger
Deka Investment GmbH, Frankfurt/Main: Chairman of the Supervisory Board, to 30 September 2016; Member of the Supervisory Board from 1 January 2017 to 8 January 2017; Chairman of the Supervisory Board, from 9. January 2017
Evonik Industries AG, Essen: Member of the Supervisory Board
Deka Immobilien GmbH, Frankfurt/Main: Member of the Supervisory Board
Liquiditäts-Konsortialbank GmbH i.L., Frankfurt/Main: Chairman of the Administrative Board
Landesbank Berlin Investment GmbH, Berlin: Chairman of the Supervisory Board to 30 September 2016

Dr. Georg Stocker
S Broker AG & Co. KG, Wiesbaden: Deputy Chairman of the Supervisory Board to 21 August 2016; Chairman of the Supervisory Board from 22 August 2016
S Broker Management AG, Wiesbaden: Deputy Chairman of the Supervisory Board to 21 August 2016; Chairman of the Supervisory Board from 22 August 2016
bevestor GmbH, Frankfurt/Main: Member of the Supervisory Board from 7 June 2016 to 19 June 2016; Chairman of the Supervisory Board from 20 June 2016 to 12 October 2016

Manuela Better
S Broker AG & Co. KG, Wiesbaden: Member of the Supervisory Board from 15 August 2016 to 21 August 2016; Deputy Chairwoman of the Supervisory Board from 22 August 2016
S Broker Management AG, Wiesbaden: Member of the Supervisory Board from 15 August 2016
Landesbank Berlin Investment GmbH, Berlin: Deputy Chairwoman of the Supervisory Board
Deka Investment GmbH, Frankfurt/Main: Deputy Chairwoman of the Supervisory Board
Deka Immobilien Investment GmbH, Frankfurt/Main: Deputy Chairwoman of the Supervisory Board
WestInvest Gesellschaft für Investmentfonds mbH, Düsseldorf: Deputy Chairwoman of the Supervisory Board
Deka Immobilien GmbH, Frankfurt/Main: Deputy Chairwoman of the Supervisory Board
DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg: Member of the Administrative Board
Deutsche EuroShop AG, Hamburg: Member of the Supervisory Board

Dr. Matthias Danne
Deka Immobilien Investment GmbH, Frankfurt/Main: Chairman of the Supervisory Board
WestInvest Gesellschaft für Investmentfonds mbH, Düsseldorf: Chairman of the Supervisory Board
Deka Immobilien GmbH, Frankfurt/Main: Chairman of the Supervisory Board
DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg: Deputy Chairman of the Administrative Board
Sparkassen Pensionsfonds AG, Cologne: Chairman of the Supervisory Board
Sparkassen Pensionskasse AG, Cologne: Deputy Chairman of the Supervisory Board
S-PensionsManagement GmbH, Cologne: Deputy Chairman of the Supervisory Board
Deka Treuhand Erwerbsgesellschaft mbH, Frankfurt/Main: Managing Director

Martin K. Müller
DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg: Chairman of the Administrative Board
S Broker AG & Co. KG, Wiesbaden: Member of the Administrative Board from 15 August 2016
Sparkassen Rating und Risikosysteme GmbH, Berlin: Member of the Administrative Board
Dealis Fund Operations GmbH i.L., Frankfurt/Main: Member of the Shareholder Committee
Deka Treuhand Erwerbsgesellschaft mbH, Frankfurt/Main: Managing Director
Deka Investment GmbH, Frankfurt/Main: Member of the Administrative Board from 4 March 2016 to 30 September 2016
Landesbank Berlin Investment GmbH, Berlin: Member of the Administrative Board to 9 May 2016

Fund-related committees

Securities business division

Advisory Board Retail
(as of 1 March 2017)

Chairman

Dr. Harald Langenfeld
Chairman of the Management Board of Stadt- und Kreissparkasse Leipzig, Leipzig

Deputy Chairman

Matthias Nester
Chairman of the Management Board of Sparkasse Koblenz, Koblenz

Members

Jochen Brachs
Chairman of the Management Board of Sparkasse Hochschwarzwald, Titisee-Neustadt

Gerhard Döpkens
Chairman of the Management Board of Sparkasse Gifhorn-Wolfsburg, Gifhorn

Thomas Feußner
Chairman of the Management Board of Sparkasse Miltenberg-Obernburg, Miltenberg

Wilfried Groos
Chairman of the Management Board of Sparkasse Siegen, Siegen

Markus Groß
Chairman of the Management Board of Sparkasse Neunkirchen, Neunkirchen

Arendt Gruben
Chairman of the Management Board of Sparkasse Schwarzwald-Baar, Villingen-Schwenningen

Stefan Grunwald
Chairman of the Management Board of Stadt-Sparkasse Solingen, Solingen

Michael Horn
Deputy Chairman of the Management Board of Landesbank Baden-Württemberg, Stuttgart

Wolfgang Kirschbaum
Chairman of the Management Board of Sparkasse Minden-Lübbecke, Minden

Oliver Klink
Chairman of the Management Board of Taunus-Sparkasse, Bad Homburg v.d.H.

Marlies Mirbeth
Member of the Management Board of Stadtsparkasse München, München

Tanja Müller– Ziegler
Member of the Management Board of Berliner Sparkasse, Berlin

Bettina Poullain
Member of the Management Board of Hamburger Sparkasse AG, Hamburg

Hubert Rist
Chairman of the Management Board of Sparkasse Pfullendorf-Meßkirch, Pfullendorf

Oliver Saggau
Member of the Management Board of Sparkasse zu Lübeck AG, Lübeck

Hartmut Wnuck
Chairman of the Management Board of Stadtsparkasse Mönchengladbach, Mönchengladbach

Advisory Board Institutional
(as of 1 March 2017)

Chairman

Joachim Hoof
Chairman of the Management Board of Ostsächsische Sparkasse Dresden, Dresden

Deputy Chairman

Michael Bott
Chairman of the Management Board of Sparkasse Waldeck-Frankenberg, Korbach

Members

Felix Angermann
Chairman of the Management Board of Sparkasse Zwickau, Zwickau

Peter Becker
Chairman of the Management Board of Sparkasse Herford, Herford

Christian Bonnen
Member of the Management Board of Kreissparkasse Köln, Cologne

Frank Brockmann
Member of the Management Board of Hamburger Sparkasse AG, Hamburg

Walter Fichtel
Deputy Chairman of the Management Board of Kreissparkasse München Starnberg Ebersberg, Munich

Stefan Lukai
Member of the Management Board of Sparkasse Essen, Essen

Thomas Lützelberger
Chairman of the Management Board of Sparkasse Schwäbisch Hall-Crailsheim, Schwäbisch Hall

Heiko Nebel
Chairman of the Management Board of Stadtsparkasse Burgdorf, Burgdorf

Hubert Riese
Member of the Management Board of Kreissparkasse Eichsfeld, Worbis

Stephan Scholl
Chairman of the Management Board of Sparkasse Pforzheim Calw, Pforzheim

Christoph Schulz
Chairman of the Management Board of Braunschweigische Landessparkasse, Brunswick

Rolf Settelmeier
Chairman of the Management Board of Stadtsparkasse Augsburg, Augsburg

Carl Trinkl
Chairman of the Management Board of Kreissparkasse Ostalb, Aalen

Franz Wittmann
Chairman of the Management Board of Landkreis Cham, Cham

Norbert Wolf
Member of the Management Board of Sparkasse Dortmund, Dortmund

Corporate Bodies of Subsidiaries – Securities business division

Deka Investment GmbH

Members of the Supervisory Board
(as of 1 March 2017)

Chairman

Michael Rüdiger
CEO of DekaBank Deutsche Girozentrale, Frankfurt/Main

Deputy Chairwoman

Manuela Better
Member of the Management Board of DekaBank Deutsche Girozentrale, Frankfurt/Main

Members

Dr. Fritz Becker
Wehrheim

Joachim Hoof
Chairman of the Management Board of Ostsächsischen Sparkasse Dresden, Dresden

Jörg Münning
Chairman of the Management Board of LBS Westdeutsche Landesbausparkasse, Münster

Heinz-Jürgen Schäfer
Offenbach

Board of Management

Chairman

Stefan Keitel

Members

Thomas Ketter
Dr. Ulrich Neugebauer
Michael Schmidt
Thomas Schneider
Steffen Selbach

Landesbank Berlin Investment GmbH

Members of the Supervisory Board
(as of 1 March 2017)

Chairman

Stefan Keitel
Chairman of the Board of Directors Deka Investment GmbH, Frankfurt/Main

Deputy Chairwoman

Manuela Better
Member of the Management Board of DekaBank Deutsche Girozentrale, Frankfurt/Main

Members

Serge Demolière
Berlin

Steffen Matthias
Berlin

Victor Moftakhar
Bad Nauheim

Thomas Schneider
Member of the Board of Directors Deka Investment GmbH, Frankfurt/Main

Board of Management

Spokesman

Arnd Mühle

Members

Andreas Heß
Dyrk Vieten

S Broker AG & Co. KG

Members of the Supervisory Board
(as of 1 March 2017)

Chairman

Dr. Georg Stocker
Deputy Chairman of the Management Board of DekaBank Deutsche Girozentrale, Frankfurt/Main

Deputy Chairman

Manuela Better
Member of the Management Board of DekaBank Deutsche Girozentrale, Frankfurt/Main

Dr. Olaf Heinrich
Head of Digital Multichannel Management of DekaBank Deutsche Girozentrale, Frankfurt/Main

Members

Martin K. Müller
Member of the Management Board of DekaBank Deutsche Girozentrale, Frankfurt/Main

Daniel Kapffer
COO Banking & Custody of DekaBank Deutsche Girozentrale, Frankfurt/Main

Board of Management

Member

S Broker Management AG

S Broker Management AG

Members of the Supervisory Board
(as of 1 March 2017)

Chairman

Dr. Georg Stocker
Deputy Chairman of the Management Board of der DekaBank Deutsche Girozentrale, Frankfurt/Main

Deputy Chairman

Dr. Olaf Heinrich
Head of Digital Multichannel Management of DekaBank Deutsche Girozentrale, Frankfurt/Main

Member

Manuela Better
Member of the Management Board of DekaBank Deutsche Girozentrale, Frankfurt/Main

Board of Management

Members

Jens Wöhler
Thomas Pfaff

bevestor GmbH

Members of the Supervisory Board
(as of 1 March 2017)

Chairman

Dr. Olaf Heinrich
Head of Digital Multichannel Management of DekaBank Deutsche Girozentrale, Frankfurt/Main

Deputy Chairman

Daniel Kapffer
COO Banking & Custody of DekaBank Deutsche Girozentrale, Frankfurt/Main

Member

Steffen Selbach
Head of Asset Management, Multi Asset, Fundamental Investment Strategies of DekaBank Deutsche Girozentrale, Frankfurt/Main

Board of Management

Members

Marco Lorenz
Björn Schmuck

DekaBank Deutsche Girozentrale Luxembourg S.A.

Members of the Adminstrative Board
(as of 1 March 2017)

Chairman

Martin K. Müller
Member of the Management Board of DekaBank Deutsche Girozentrale, Frankfurt/Main

Deputy Chairman

Dr. Matthias Danne
Member of the Management Board of DekaBank Deutsche Girozentrale, Frankfurt/Main

Members

Manuela Better
Member of the Management Board of DekaBank Deutsche Girozentrale, Frankfurt/Main

Wolfgang Dürr
Executive Member of the Adminstrative Board DekaBank Deutsche Girozentrale Luxembourg S.A., Luxemburg

Hans-Ulrich Hügli
Luxembourg

Peter Scherkamp
Munich

Board of Management

Members

Wolfgang Dürr
Patrick Weydert

Real Estate business division

Advisory Board Real Estate
(as of 1 March 2017)

Chairman

Johannes Hüser
Chairman of the Management Board of Kreissparkasse Wiedenbrück, Rheda-Wiedenbrück

Deputy Chairman

Dirk Köhler
Chairman of the Management Board of Sparkasse Uelzen Lüchow-Dannenberg, Uelzen

Members

Andrea Binkowski
Chairwoman of the Management Board of Sparkasse Mecklenburg-Strelitz, Neustrelitz

Wolfgang Busch
Deputy Chairman of the Management Board of Sparkasse Hilden-Ratingen-Velbert, Velbert

Toni Domani
Member of the Management Board of Sparkasse Regen-Viechtach, Regen

Peter Dudenhöffer
Deputy Chairman of the Management Board of Sparkasse Germersheim-Kandel, Kandel

Norbert Grießhaber
Chairman of the Management Board of Sparkasse Kraichgau, Bruchsal

Udo Klopfer
Chairman of the Management Board of Sparkasse Hegau-Bodensee, Singen

Heinrich-Georg Krumme
Chairman of the Management Board of Sparkasse Westmünsterland, Dülmen

Karl Manfred Lochner
Member of the Management Board of Landesbank Baden-Württemberg, Stuttgart

Dr. Ewald Maier
Chairman of the Management Board of Sparkasse Forchheim, Forchheim

Guido Mönnecke
Chairman of the Management Board of Kreis-Sparkasse Northeim, Northeim

Mike Stieler
Chairman of the Management Board of Sparkasse Sonneberg, Sonneberg

Dr. Hariolf Teufel
Chairman of the Management Board of Kreissparkasse Göppingen, Göppingen

Ulrich Voigt
Member of the Management Board of Sparkasse KölnBonn, Cologne

Jürgen Wagenländer
Member of the Management Board of Sparkasse Mainfranken Würzburg, Würzburg

Hans Ulrich Weiss
Chairman of the Management Board of Sparkasse Mansfeld-Südharz, Lutherstadt Eisleben

Reinhold Wintermeyer
Deputy Chairman of the Management Board of Sparkasse Oberhessen, Friedberg

Corporate Bodies of Subsidiaries – Real Estate business division

Deka Immobilien GmbH

Members of the Supervisory Board
(as of 1 March 2017)

Chairman

Dr. Matthias Danne
Member of the Management Board
of DekaBank Deutsche Girozentrale,
Frankfurt/Main

Deputy Chairwoman

Manuela Better
Member of the Management Board
of DekaBank Deutsche Girozentrale,
Frankfurt/Main

Member

Michael Rüdiger
CEO of DekaBank Deutsche
Girozentrale, Frankfurt/Main

Board of Management

Members

Ulrich Bäcker
Burkhard Dallosch
Torsten Knapmeyer
Thomas Schmengler

Deka Immobilien Investment GmbH

Members of the Supervisory Board
(as of 1 March 2017)

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Frankfurt/Main

Deputy Chairwoman

Manuela Better
Member of the Management Board
of DekaBank Deutsche Girozentrale,
Frankfurt/Main

Member

Hartmut Wallis
Zornheim

Board of Management

Members

Burkhard Dallosch
Torsten Knapmeyer
Thomas Schmengler

WestInvest Gesellschaft für Investmentfonds mbH

Members of the Supervisory Board
(as of 1 March 2017)

Chairman

Dr. Matthias Danne
Member of the Management Board
of DekaBank Deutsche Girozentrale,
Frankfurt/Main

Deputy Chairwoman

Manuela Better
Deputy Chairwoman
Member of the Management Board
of DekaBank Deutsche Girozentrale,
Frankfurt/Main

Member

Hartmut Wallis
Zornheim

Board of Management

Members

Ulrich Bäcker
Burkhard Dallosch
Torsten Knapmeyer
Mark Wolter

Glossary

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

Advisory/management mandate
External fund which is managed by a capital management company (*Kapitalverwaltungsgesellschaft* – KVG) of the Deka Group. For advisory mandates, the KVG acts only as an adviser, i.e. the external management company must verify compliance with investment restrictions in advance. For management mandates, however, investment decisions are made, verified and implemented by the KVG of the Deka Group.

Core business
Deka Group's core business comprises launching and managing securities and property funds and certificates for private and institutional investors as well as transactions that support and complement Asset Management. These include, among other things, services in connection with fund-based asset management, the investment custody business and activities in the Capital Markets and Financing business divisions.

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

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

Fully loaded
Capital ratio calculated by applying the set of regulations stipulated in the Capital Requirements Regulation (CRR) and Capital Requirements Directive IV (CRD IV) in full, i.e. without taking account of the applicable transitional provisions.

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

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

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

Non-core business
Positions from credit and capital market business that are not suitable for Asset Management or to realise synergies with Asset Management constitute non-core business. At the Deka Group, these positions have been separated internally. They are reported separately from core business and reduced while at the same time safeguarding assets. The portfolio essentially consists of legacy business with securitised and structured products and the volume is now relatively small.

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

Phase in
Capital ratio calculated by applying the set of regulations stipulated in the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV) and taking account of the applicable transitional provisions.

Primary/institutional customers
The Deka Group's primary customers are the German savings banks and their customers. The products sought by primary customers are also offered to other institutional customers. These include in particular insurance companies, pension funds and foundations but also German public-sector institutions.

Return on equity (RoE)
The RoE reflects the payment of interest on capital provided by shareholders. The Deka Group calculates this ratio as the economic result divided by equity at the start of the year, including atypical silent capital contributions.

Revaluation reserves
Revaluation reserves are a component of IFRS equity on the balance sheet. They include revaluations of net liabilities arising from defined benefit obligations (actuarial gains and losses), the effects of fair value measurement on financial instruments in the available for sale category – through other comprehensive income – and the effective portion of the change in fair value of hedging instruments arising from cash flow hedges, taking into account deferred taxes associated with these items.

Risk-bearing capacity
As a basic principle, risk-bearing capacity is used to determine the maximum level of risk that can be incurred (impacting the income statement), taking into account risk concentrations. To safeguard its risk-bearing capacity, the Deka Group primarily follows a liquidity-oriented approach (liquidation approach), in which the particular focus is on ensuring the protection of creditors at all times in the hypothetical event of liquidation. This requires that even extremely rare risk situations are included in the analysis. The corresponding utilisation ratios for total risk-bearing capacity (risk capacity), the primary risk cover potential (maximum risk appetite) and the allocated risk capital (risk appetite) may not exceed 100%.

Risk cover potential
Following the liquidation approach, the risk cover potential (total risk-bearing capacity) essentially consists of equity under IFRS, income components and positions of a hybrid capital nature (subordinated capital), adjusted using amounts to correct for certain capital components such as intangible assets or risks arising from pension obligations. As a formal overall risk limit, it serves to guarantee the Bank's risk-bearing capacity. On this basis, a buffer is reserved for stress scenarios in order to reflect extreme market developments and turbulence in the context of risk-bearing capacity. This corresponds at a minimum to the level of subordinated capital components, including Additional Tier 1 capital. The primary risk cover potential (maximum risk appetite) – the primary control parameter for the allocation of risk capital – equates to the total risk-bearing capacity (risk capacity) minus the secondary risk cover potential.

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

Total customer assets
Total customer assets essentially comprise the income-relevant volume of mutual and special fund products (including ETFs) in the Securities and Real Estate business divisions, direct investments in cooperation partner funds, the portion of fund-based asset management attributable to cooperation partners, third party funds and liquidity, certificates, advisory/management mandates and thirds party managed master funds.

Wertpapierhaus
DekaBank is the Provider of Asset Management and Capital Market Solutions in the German Savings Banks Finance Group. Together with its subsidiaries it forms the Deka Group. In this capacity, the Deka Group offers the combined expertise of asset manager, financier, issuer, structurer, liquidity platform, clearing partner and custodian bank.

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Internet website

The Annual Report 2016 can be found on our website, including as an interactive online version under "Investor Relations/ Reports" in German and English. Previous versions of our annual and interim reports are also available for download here.

Our group company in Luxembourg, DekaBank Deutsche Girozentrale Luxembourg S. A. publishes its own annual report.

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Financial calendar

24 August 2017: Interim Report as at 30 June 2017

The publication date is preliminary and subject to change.

Gender clause
In this annual 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 Report in other respects contain forward-looking statements as well as expectations and forecasts. These are based on the information available to us at the time of publication, 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 tax law and legal framework and 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 Deka Group Annual Report is provided for convenience only. The German original is definitive.

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Finanzgruppe