DekaBank
Deutsche Girozentrale
Annual financial statements 2013
Evolving into a securities service provider

Olympia Partner Deutschland

Finanzgruppe

DekaBank

Content

Management report

At a glance

2013 was a year of transition for the Deka Group, which evolved from asset manager into a fully-fledged securities service provider for the savings banks. The transformation programme launched to achieve this started to produce results just twelve months after it began. Sales support provided to the savings banks was increased and reorganised, the product range has been realigned and enhanced to include certificates, and advisory services for institutional customers have been expanded under a separate brand.

The Deka Group has achieved meeting its ambition of supporting the savings banks as extensively as possible in securities-related retail business and asset/liability management by adopting a comprehensive advice-based sales approach and solution-oriented investment concepts. Taking over the customer-oriented capital market business of Landesbank Berlin (LBB) and fund company LBB-INVEST at the end of 2013/beginning of 2014 Deka Group further strengthened its importance for retail and institutional customers.

In 2013, the Deka Group once again generated high added value for its shareholders. At €501.5m, the economic result almost matched the previous year's level. This figure included investment for the future totalling in excess of €100m for the acquisition of LBB's customer-oriented capital market business as well as restructuring provisions for future-proof adjustments to the Group's business model, which were charged to the income statement. The decrease in net interest income was partly related to volume. At the same time, net commission income remained at an almost steady level, reflecting higher net sales and a strong fund performance. Risk provision levels normalised following the transfer of high net amounts in the previous year. This in turn impacted positively on profit performance. Through to the Deka Group's strict cost management, additional expenses – particularly in connection with stepped up sales and higher regulatory costs – were funded by means of Group resources.

The Deka Group's value- and risk-oriented management ensured that overall risk-bearing capacity utilisation remained at a modest level while the liquidity supply was at its usual healthy level. This contributed to consistent maintenance of the Bank's strong ratings compared with the sector as a whole. In view of regulatory requirements, strengthening the core tier 1 capital remains an important target.

Information about the Deka Group

Deka Group profile and strategy

The Deka Group is the fully-fledged securities service provider for the savings banks. Its services comprise investments, asset management and support for the savings banks throughout the entire investment and advisory process for securities-related business. In addition, the Deka Group offers comprehensive advice and solutions to the savings banks and other institutional customers for their investment, liquidity, funding and risk management requirements.

Legal structure and corporate governance

DekaBank Deutsche Girozentrale is a German federal institution incorporated under public law with registered offices in Frankfurt/Main and Berlin. It forms the Deka Group together with its subsidiaries in Germany and abroad. DekaBank 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 Deka Erwerbsgesellschaft mbH & Co. KG via the regional savings banks and giro associations affiliated with them. The other 50% of the shares are held by the German Savings Banks and Giro Association (DSGV ö. K.).

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 defines clear and distinct responsibilities for boards and committees 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. They form the basis of its code of ethics, which provides binding guidelines for the actions of corporate bodies and employees. These principles and guidelines represent the basic structure of the Deka Group's corporate culture, which complies with the law, is open, transparent and aimed at adding value.

DekaBank is jointly managed by the Board of Management, which comprises five members. On 1 May 2013, Martin K. Müller joined the corporate body. He was previously a member of the Management Board of Landesbank Berlin. Dr. h. c. Friedrich Oelrich, who was responsible for Risk Control and Loan Monitoring, chose to step down from the Board of Management at the end of 2013. With effect from 1 January 2014, the responsibilities of the Board of Management members were altered as follows:

- Michael Rüdiger is CEO and responsible for Strategy, Communications and Risk,
- Oliver Behrens, Deputy CEO, is responsible for Institutional Customers, securities investments and Capital Markets,
- Dr. Matthias Danne is responsible for Real Estate, lending and finance,
- Martin K. Müller is responsible for business operations, IT, Human Resources and Treasury,
- Dr. Georg Stocker has responsibility for Savings Banks Sales and Marketing.

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

The close cooperation of the Board of Management and Administrative Board is based on trust. The Administrative Board comprises representatives of the shareholders and employees as well as representatives from the *Bundesvereinigung der kommunalen Spitzenverbände* (German Federal Association of Central Municipal Organisations), who act in an advisory capacity. The work of the Administrative Board 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 committees were renamed in line with the further development of the requirements under the German Banking Act (*Kreditwesengesetz* – KWG) from 2013 (in connection with the Capital Requirement Directive IV, CRD IV), and members were appointed for the first time to some of the committees. The German Federal Minister of Finance is responsible for general governmental supervision.

Business model

The structure and content of the following sections describing the business model and strategy correspond to the relevant sections published in the Group management report of the Deka Group. The business model and strategy are geared to the Deka Group and the system of Group management by business division and thus encompass all business divisions and legal entities. Management is not exercised at the level of DekaBank as a single entity, hence no separate corresponding section has been prepared at individual Bank level.

The Deka Group's business model primarily focuses on the requirements of its key clients in the German market – the savings banks and their customers. Products and solutions are also offered to other institutional clients, for example insurance companies, pension funds and foundations, provided that critical mass is achieved to ensure economies of scale.

The Deka Group supports the investment and advisory process at savings banks via its Savings Banks Sales organisation, providing targeted advice and services. The requirements of the savings banks and other institutional customers are addressed by the Institutional Customers sales team.

The Deka Group's core business consists in making relevant securities and property investments available to retail and institutional investors as well as implementing transactions which support and complement asset management along the entire value chain. Accordingly, the Group acts as finance provider, issuer, structurer, trustee and custodian. In addition to these roles, the Group's business activities also comprise its function as a liquidity platform for the savings banks. The Deka Group also provides support for the savings banks when purchasing and processing securities. DekaBank's role as clearing broker for the centralised clearing of OTC derivatives involving counterparties within the alliance of guarantors will also be significant in future. This service is likely to be available from the second quarter of 2014 onwards.

Deka Group strategy

As the fully-fledged securities service provider for the savings banks, Deka Group's strategy is geared to strengthening the *Sparkassen-Finanzverbund* in both German and European competitive environments on a sustained basis and consolidating its important role in helping German households to build up their assets. Working closely with the savings banks and the DSGV, the Deka Group makes a fundamental contribution towards positioning the savings banks as forward-looking securities providers. The Deka Group launched its transformation to become a fully-fledged securities service provider at the end of 2012 with a view to fulfilling this role even better. The Group's transformation programme, D18, spans several years and essentially focuses on supporting the savings banks at the best possible in securities-related retail business and asset/liability management, on the basis of a comprehensive advice-centred sales approach and solution-oriented investment concepts. At the same time, the Deka Group intends to continue to add significant value for its shareholders.

Support for the savings banks in retail business

As part of the DSGV securities process, the Deka Group is strengthening the significance of securities investments for private investors by supporting the savings banks on a targeted basis in the investment and advisory process. For this purpose, the Deka Group makes available comprehensive research, precisely-tailored investment solutions and sales and marketing support.

Expansion of Savings Banks Sales

The Deka Group is significantly expanding its Savings Banks Sales to maximise collective sales potential. This particular campaign focuses on intensive support for the savings banks, which is provided by sales directors and sales representatives.

Because of the decentralised structure of the *Sparkassen-Finanzgruppe*, the expansion requires a considerable increase in staff numbers. The target is to recruit approximately 180 additional sales staff by the end of 2015, which will ensure more extensive support for the savings banks across the regions.

The complementary programme of training courses for specialist advisers and managers in the savings banks was further expanded in 2013. The first graduates from the *Deka-Patenschmiede* (Deka mentoring scheme) were presented with their certificates during the reporting year.

The Deka Group expects the uniform investment and advisory process to bring additional benefits to fund unit sales. More than 400 savings banks had already implemented the process by the end of the reporting year. Having geared a range of solutions to the process, the Deka Group offers investment committees and customer advisers a full spectrum of services to help them give comprehensive advice to their end customers. These services include information about the market consensus, research on specific securities and the development of specimen portfolios.

The transformation to become a fully-fledged securities service provider also includes ongoing development of private banking services. DekaBank aims to establish a closer relationship with the savings banks in the private banking segment.

Further development of the product range

At the beginning of 2013, the Deka Group enhanced the range of securities it offers to help private households build up assets to include certificates. The focus was on issuing standard products which are suitable for selling on a broad scale. They include equity linked bonds, interest rate products and capital protection certificates as well as express, discount and bonus structures. DekaBank already has many years of experience in issuing individual certificates for proprietary investments by the savings banks and institutional customers. As a result, the Bank has been able to rely on an established infrastructure in this business segment. With the new DekaBank certificates, savings banks will now also be able to offer their customers bonds from an issuer with a strong rating, the kind in which they themselves have been investing for many years.

In addition, the Deka Group is examining further options for expanding its product range to include new solutions based to meet specific requirements. For instance, plans are in place to develop additional product solutions specifically for the current low interest rate environment. Factors that will contribute to the development of successful products include the Deka Group's extensive experience based on its own issues for institutional investors, the reliability of its trading and structuring processes, the Group's strong rating and its proven sales platform, which is run in partnership with the savings banks. At the same time, the Deka Group is continually streamlining its range of investment funds in order to minimise the level of complexity for the savings banks and DekaBank itself as much as is reasonably possible.

Another strategic focus is continually to improve product quality, for example through closer integration of adviser requirements in the *Deka-Vermögenskonzept* (Deka Wealth Concept). This service will remain a sales focus in 2014 as part of the savings bank finance concept. The same applies to *Deka-BasisAnlage* (Deka Basic Investment), open-ended property funds and mixed funds, which specifically respond to investors' need for security.

New brand launched in retail business

The sales campaigns and product developments that are part of the transformation programme are accompanied by a fresh approach to the brand, which centres on expertise in securities and solutions, in combination with the quality of the products and advisory services delivered by the savings banks. In the retail segment, the new Deka Investments umbrella brand has broadened its marketing spectrum since the beginning of 2014. It encompasses investment funds, certificates, pension products and asset management. The Deka Investments brand is the successor to the more narrowly defined Deka investment funds brand.

Support for the savings banks as institutional customers

The Deka Group supports savings banks in its capacity as a liquidity platform and funding provider. It is continuously developing the comprehensive range of investment opportunities for institutional investors as well as advisory and general services to meet the treasury needs of the savings banks. This enables savings banks to exploit opportunities in a stringent regulatory environment while reducing costs and risks. These services are also offered to other institutional customers.

Expansion of the range of services

The Deka Group is also continuing its development from product to solution provider in institutional business. As part of a comprehensive advisory approach, the savings banks and other institutional customers are increasingly offered individually tailored services for managing direct investments and liquidity as well as for tactical capital allocation. In this context, the asset classes and formats provided will also be expanded with a view to making a full spectrum of services available to customers for their asset/liability management, while meeting all regulatory requirements. The Treasury Compass, for example, highlights the Deka Group's advisory expertise as a fully-fledged securities service provider.

Following implementation of the risk minimising techniques required by the European Market Infrastructure Regulation (EMIR) in financial year 2013, the Deka Group has been used by a growing number of customers as service provider for processing standardised OTC derivatives. DekaBank has been a clearing member of the London Clearing House (LCH), a central counterparty for clearing OTC derivatives, since 2012. Starting in 2014, savings banks will have the option of using DekaBank as clearing broker to ensure the mandatory clearing of OTC derivatives as stipulated by the EMIR.

Expansion of the customer base

The range of products and services for institutional investors has been pooled under the Deka Institutionell umbrella brand since September 2013. It encompasses the full spectrum of institutional asset management and liquidity management, as well as credit and risk. In addition, it comprises services such as the fulfilment of the roles of joint venture fund manager (Master-KVG) and depositary.

On the strength of the new umbrella brand, additional investors who are bound by the German Insurance Supervisory Act (V*ersicherungsaufsichtsgesetz* – VAG), such as pension funds, foundations and SMEs, are to be targeted alongside the savings banks, building societies and insurance companies within the *Sparkassen-Finanzgruppe*.

Takeover of Landesbank Berlin activities

As at 31 December 2013, DekaBank took over the customer-oriented capital market business of Landesbank Berlin (LBB) and then acquired fund company LBB-INVEST with effect from 1 January 2014. This has further strengthened the Bank's role as fully-fledged securities service provider for the savings banks vis-à-vis retail and institutional customers.

As part of the acquisition of the customer-oriented capital market business, LBB customers and the corresponding employees in this area were transferred to DekaBank. Existing product portfolios in customer-oriented capital market business have remained with LBB, with the exception of certificates issued by LBB, which will be transferred to DekaBank at a later date. LBB ceased its customer-oriented capital market operations on 31 December 2013 and now passes on any customer enquiries to DekaBank.

LBB-INVEST will continue to operate as an independent company in Berlin, with fund assets totalling €9.3bn as at year-end 2013, under the definition set out by the German Association for Investment and Asset Management (*Bundesverband Investment und Asset Management* – BVI). The company manages mutual and special funds and will continue to market these under its own name.

Optimisation processes at the Deka Group

The Deka Group generates significant value on behalf of its shareholders by managing business cost-effectively via its high-performance asset management and bank platform to ensure an appropriate balance between risks and rewards. Value-oriented growth coupled with the efficient use of equity is also aimed at securing an ambitious target rating, which is essential to DekaBank's business model.

The expenses in connection with the implementation of the transformation programme to become a fully-fledged securities service provider are a worthwhile investment for the Deka Group and the *Sparkassen-Finanzgruppe*. However, continuous cost control at all levels of banking operations is designed to achieve largely cost-neutral implementation of the programme. Furthermore, additional expenses expected in subsequent years will be offset by the anticipated rise in income as a result of the measures taken.

Sustainable business policy

DekaBank's sustainability strategy aims at the economic, environmental and social aspects of business. The Bank intends to provide a forward-looking response to global and social challenges while at the same time leveraging economic opportunities in the interest of its shareholders – with a long-term, risk-oriented and responsible approach.

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

Since 2009, DekaBank has provided investment products meeting very high ethical, social and environmental standards. In the reporting year, Deka Investment GmbH signed up to the European SRI Transparency Code, which was introduced by the European Sustainable and Responsible Investment Forum (Eurosif), for the sustainable investment funds Deka-Stiftungen Balance, Deka-Nachhaltigkeit Aktien, Deka-Nachhaltigkeit Renten and Deka-Nachhaltigkeit Balance.Overall, Deka Investment GmbH managed assets totalling around €1.2bn in sustainable investment funds as at year-end 2013.

Additionally, the Deka Immobilien Investment GmbH and WestInvest Gesellschaft für Investmentfonds mbH are also continually expanding their commitment to sustainability. Many of the fund properties aim to obtain certification from recognised providers such as the U.S. Green Building Council (Leadership in Energy and Environmental Design, LEED) and *Deutsche Gesellschaft für Nachhaltiges Bauen* (DGNB). At the end of 2013, just under 34% of all fund properties were certified to one of the internationally recognised sustainability standards. The target figure is intended to be increased up to 40% by 2015.

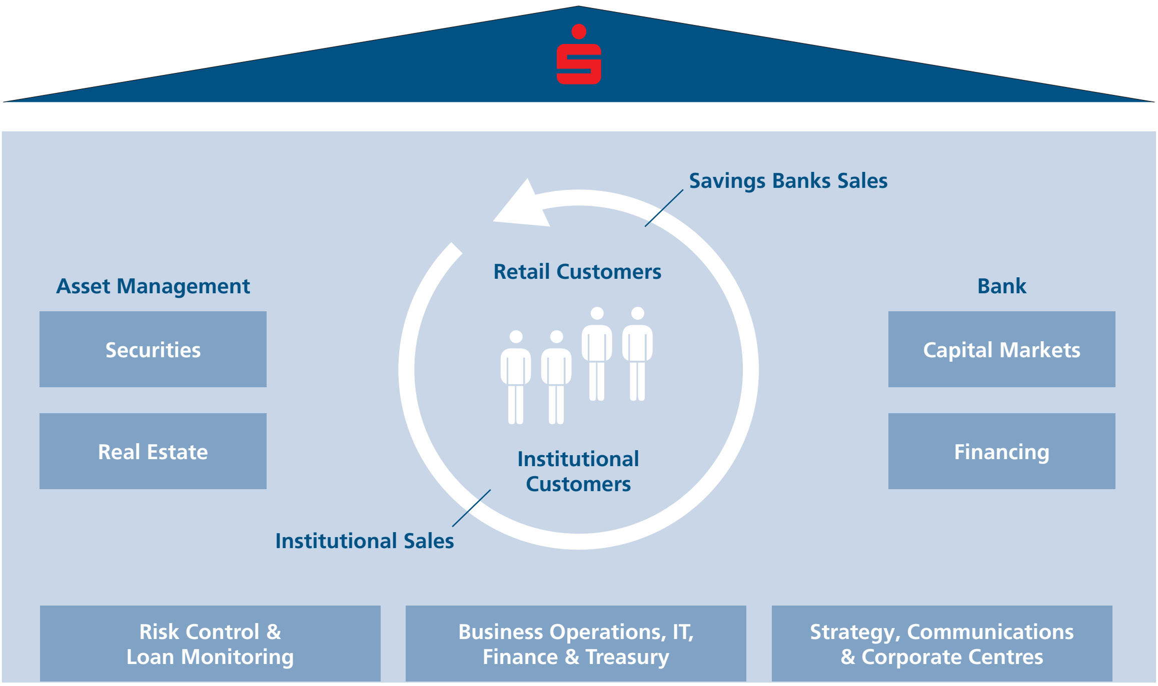
Organisational structure and locations

The business divisions work together with the head office unit Savings Banks Sales & Marketing and the other centralised business units within the scope of Deka's integrated business model, in order to achieve the best possible solutions for the Group's customers.

As part of the transformation to becoming a fully-fledged securities service provider for the savings banks, DekaBank realigned its organisational structure in mid-2013 (Fig. 1). The asset management functions of the fully-fledged securities service provider were assigned to the essentially unchanged Securities and Real Estate business divisions. Almost all customer-oriented banking functions of the fully-fledged securities service provider are covered by the Capital Markets and Financing business divisions, which evolved from the former Corporates & Markets business division. The segments mentioned above correspond to the structure of the Group's business divisions, which is also reflected in internal reporting. All segment-related figures from the previous year were adjusted accordingly.

In connection with the realigned structure of the business divisions, DekaBank introduced German names for the various organisational units. This enhances transparency with regard to the corporate structure, both in-house and externally, and creates a better understanding among shareholders, sales partners and customers in the German-speaking locations.

New structure of the Deka Group *(Fig. 1)*



Securities business division

The Securities business division emerged from the former Asset Management Capital Markets division. Active management of securities funds and fund-linked asset management for private investors as well as special funds and mandates for institutional counterparties are brought together in this business division. At the beginning of 2013, business involving passively managed exchange-traded funds (ETFs) was also integrated into the Securities business division. For this purpose, ETFlab Investment GmbH was merged with Deka Investment GmbH with effect from 1 January 2013.

Thus, the product range includes:

- actively managed mutual funds in all major asset classes (equities, bonds, money market, mixed funds, capital protected funds and any combination of these),
- products relating to fund-linked asset management, including Deka-Vermögenskonzept (Deka Wealth Concept), funds of funds such as Deka-BasisAnlage (Deka Basic Investment) and fund-linked pension products,
- special funds, advisory/management mandates and master fund mandates for institutional customers, and
- passively managed exchange-traded funds (ETFs).

In addition, the Securities business division provides customer-oriented services. They comprise all aspects of the investment custody business – including portfolio management – as well as contract and order processing. Fund accounting and some areas of fund administration are pooled in Dealis Fund Operations GmbH, a joint venture with Allianz Global Investors.

LBB-INVEST, which was taken over with effect from 1 January 2014, offers mutual funds and special funds that primarily invest in Europe or worldwide. It also deals with mandate-based business and individual asset management for the savings banks. The Securities business division’s market positioning has been strengthened by the addition of the portfolio of fund products under the LBB-INVEST brand.

Real Estate business division

The Real Estate business division continues the business of what was previously the Asset Management Property business division. It offers property investment products for private and institutional investors as well as credit funds, and its activities also encompass the financing of commercial property. Commercial property financing activities are geared to the markets, business partners and property types which are also relevant to investment fund business. The focus is on the property segments of offices, shopping, hotels and logistics. Broad-based access to the market and investors means that property financing consolidates the expertise and business basis of the Real Estate division. The combined presence in investment fund and lending business represents a significant advantage over most of its competitors.

Investment fund business concentrates on buying marketable commercial properties in liquid markets, the value-oriented development of such properties and their sale. The product range includes open-ended mutual property funds, special funds and individual property funds for institutional customers – primarily the savings banks. In addition, the business division manages credit funds that invest in property, infrastructure and transport asset financing. 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 investment management companies, Deka Immobilien Investment GmbH and WestInvest Gesellschaft für Investmentfonds mbH, focus on active portfolio and investment fund management.

Capital Markets business division

The Capital Markets business division emerged from the former Markets sub-division within the Corporates & Markets business division. It 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-generated capital market business. As a developer and supplier of capital market products, an infrastructure provider for capital market transactions and as the liquidity platform for savings banks and institutional customers, the business division provides the link between customers and the capital markets. A tailored range of services relating to securities repurchase transactions, securities lending, and money market and foreign exchange trading make DekaBank the central securities and collateral platform within the association. As LCH clearing member, DekaBank also offers interest rate derivative transactions via central counterparties (CCP) to the savings banks, helping them to fulfil regulatory requirements efficiently.

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

- The Commission Business unit essentially executes orders relating to equities, bonds and stock exchange traded derivatives on behalf of customers within and outside the Group. It primarily carries out activities on behalf of the Asset Management units of the Deka Group and other organisations within the savings banks association.

- The Trading & Structuring unit is the centre of competence for trading and structuring capital market products (spot instruments, bonds and equities), and for derivatives in all asset classes that are used by the investment funds and in the Depot A securities account of the savings banks or issued for other customers. This unit is also responsible for issuing business (bonds and certificates).

- The Cash/Foreign Exchange & Repo/Lending unit pools all short-term capital market activities with a term of up to two years. They include, for example, short-term interest rate hedging and collateralised money market transactions. As a liquidity platform, the unit supports savings banks with liquidity supply and management. Repo/lending business is an important factor, which generates liquidity as well as additional income for investment funds and the savings banks. Within the Group's business model, the unit is also responsible for DekaBank's funding and liquidity management for maturities of up to and including two years.

The customer-oriented capital market business of LBB, which was taken over at the end of 2013, supplements existing activities in the Capital Markets division.

Financing business division

The Financing business division – the former Credits sub-division within the Corporates & Markets business division – focuses on financing infrastructure measures, means of transport and trades backed by export credit agencies (ECA) alongside funding the savings banks. Outside of savings bank finance, new business activities centre on loans eligible to tap the capital market which, at the date of the financial statements, offer strong prospects of being passed on to other banks, savings banks, institutional investors and the Deka Group's own investment funds at a later date.

As part of savings bank funding, loans are granted in all maturity bands. The financing of infrastructure measures predominantly focuses on European transport, energy and social infrastructure. Transport and export financing is geared to financing aircraft and ships as well as ECA-covered export finance.

Sales

Savings Banks Sales and Marketing

All of the business divisions are closely integrated with Savings Banks Sales and Marketing, which are separate responsibilities of a Board of Management member. The unit focuses on comprehensive sales support for the savings banks in retail business. It therefore represents an important link between the Deka Group's Asset Management and customer advisers in the savings banks, as well as between production and marketing within the Group.

To ensure nationwide support, Sales are divided into six sales regions in Germany. Sales directors ensure ongoing market-oriented and customer-centred dialogue with the savings banks and savings bank associations. At the same time, Deka sales support staff and other employees assist the savings banks with marketing and sales activities and provide on-site help for advisers.

Institutional Customer Sales

The Institutional Customer Sales unit essentially supports savings banks and their corporate customers as well as the Deka Group's own institutional clients in Germany and abroad. In organisational terms, the unit is assigned to the Securities business division but has sales responsibility for all business divisions.

The customer advisers adopt a comprehensive approach which includes all products, services and solutions offered by the Deka Group. Customer advisers are supported by the Strategic Analysis Team, which develops methods and applications for asset and liquidity management, and loan and risk management relating to institutional clients, as well as providing advisory services to this target group.

Corporate Centres

Treasury

The Treasury Corporate Centre was previously a sub-division within Corporates & Markets. It is now incorporated into the overall Bank management. Last year, the importance of the overall management of the Bank's resources by Treasury continued to increase in view of regulatory requirements. Resource management covers market price risks in the portfolio held to maturity as well as the Deka Group's liquidity supply and funding. Treasury manages the strategic liquidity reserve for the Deka Group, finances investment funds and raises securities in the cover registers.

The intra-Group, market-aligned management of structural liquidity is ensured on the basis of a transfer pricing system. This system was further developed in the reporting year to reflect associated companies and the transactions involved. On the funding side, Treasury is responsible for issuing Deka Group bonds with maturities of more than two years and for equity management.

In its capacity as central resource manager, Treasury supports all business divisions acting as a contact for market price and liquidity risk related queries.

Treasury is listed as a separate segment in segment reporting.

Other Corporate Centres

Alongside Treasury, a further twelve Corporate Centres support Sales and the business divisions. As at the reporting date, these were the Corporate Office & Communications, Legal, Corporate Development, Cost Management & Organisation, Audit, Compliance, Human Resources, Risk Controlling, Credit Risk Office, IT, Transaction & Custodian Services and Finance.

On 1 January 2014, the Corporate Centres were expanded to include the new Risk Controlling Capital Market Funds (previously assigned to the Securities business division). This new business unit is responsible for risk control relating to the investment funds of the joint venture fund managers (KVG subsidiaries), which are integrated in the business division at functional level.

Non-core business

The Deka Group's business activities that are to be discontinued have been pooled into non-core business. This includes, in addition to corporate financing, leveraged loans, trade financing and non-ECA-covered export finance, structured capital market products and financing of regional and local authorities which is not eligible for *Pfandbrief*-based funding.

The relevant portfolios are reduced while safeguarding assets. Based on the analysis of potential appreciation in value, default risk and expected net interest income, a decision is taken as to whether to sell or hold specific positions.

Major companies and locations

The Deka Group's business is managed from the head office in Frankfurt/Main. There the major investment management companies are located, too. WestInvest Gesellschaft für Investmentfonds mbH is based in Düsseldorf, and the employees of the former ETFlab are based in Munich.

DekaBank Deutsche Girozentrale Luxembourg S.A. in Luxembourg is the most important international subsidiary. DekaBank also has an international branch in Luxembourg. The Deka Group also maintains companies and representative offices in Amsterdam, Brussels, London, Madrid, Milan, New York, Paris, Tokyo, Vienna and Zurich.

The Zurich-based subsidiary Deka(Swiss) Finanz AG, which signed under the name Deka(Swiss) Privatbank AG until the end of 2013, is to be closed with effect from 31 December 2014.

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

Markets and influencing factors

With a focus on investments and portfolio and wealth management as well as the related essential asset management and banking services, the Deka Group's business activities are based in fiercely competitive and highly regulated market segments. Accordingly, a wide variety of market and competition factors may impact on the financial position and future prospects of the Deka Group.

In securities-related asset management, the capital market environment, sales environment for the *Sparkassen-Finanzgruppe* and product quality influence the business trend and profit performance to a significant extent. These factors impact on sales to retail and institutional investors as well as on the performance of portfolios.

As is the case with property finance, property-related asset management is largely impacted by the situation and developments in commercial property investment and letting markets, as well as by the money and capital markets.

The situation on the money and capital markets at any given time is also highly relevant to the Capital Markets and Financing business divisions as well as to Treasury. For example, customer demand for liquidity partly depends on the volume of liquidity made available by the European Central Bank (ECB). Typically, the situation in the market for fixed-income securities impacts on the issuing activities of the Capital Markets business division. Lending business is partly impacted by the economic trend in the sectors of the industry financed and by market interest rate developments.

Changes in regulatory requirements are also of great importance in all business divisions and for the Deka Group as a whole. Current economic conditions are described on pages 14 to 18.

The Deka Group's business divisions all have a strong position in their respective markets (as at year-end 2013):

- With fund assets (according to BVI) of around €96bn, the Securities business division is Germany's second largest provider of mutual securities funds.

- The Real Estate business division has (BVI) fund assets totalling roughly €22bn, making it the second largest mutual property fund manager in Germany, although fund assets of around €21bn mean it is the market leader in mutual property funds for private customers.

Risk and profit management at the Deka Group

The structure and content of the section describing management of risk and profit correspond to the relevant section published in the Group management report of the Deka Group. Risk and profit management is geared to the Deka Group and the system of Group management by business division and therefore encompasses all business divisions and legal entities. Because financial and non-financial performance indicators are defined and managed only at Group level and not at Bank level, no separate section has been prepared for DekaBank.

DekaBank aims to achieve a return on equity that is at least sufficient to secure the corporate value, on the basis of an appropriate balance between risks and rewards over the long term. In line with this goal, 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 is essentially illustrated by three key financial indicators.

The economic result is the key in-house management and performance indicator and is based on the IFRS accounting standards. In addition to net income before tax, it 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. 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 cannot yet be recorded in IFRS reporting at the present time, due to the fact that accurate details are not yet available. The aim of adjustments compared with net income before tax (under IFRS) is to reflect actual growth during the period under review more accurately. The economic result has already been used in external reporting at Group and business division level for several years. Measurement and reporting differences with regard to the consolidated financial statements under IFRS are clearly explained in note [2] of the Deka Group consolidated financial statements, where they are reported in the reconciliation column relating to Group net income before tax. This ensures that it is always possible to reconcile the figures presented with net income before tax.

The core tier 1 capital ratio is used as key performance indicator for assessing the adequacy of the total amount of capital and reserves 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 core tier 1 capital ratio is defined as the ratio of core tier 1 capital to the risk-weighted assets (RWA) of all relevant counterparty, market and operational risk positions. Risk-weighted assets are managed in line with the Deka Group's strategy, balance sheet structure and the capital market environment. DekaBank aims to maintain its core tier 1 capital ratio above the target level of 12% in the long term.

Utilisation of the risk cover potential, applying the leading liquidation approach, is the key risk management parameter. The monthly risk-bearing capacity analysis involves comparing the Deka Group's risk cover potential that may be used to cover losses with total risk determined across all risk types which have an impact on profit or loss (pages 38 to 39). This makes it possible to establish whether total risk limits have been adhered to at Group and divisional level.

Non-financial performance indicators

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

Net sales represent the key performance indicator of sales success in Asset Management (Securities and Real Estate business divisions and Savings Banks 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, and ETFs. Sales generated through the Bank's proprietary investment activities are not taken into account.

Key elements of assets under management (AuM) include 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. Assets under management have a significant impact on the level of net commission income.

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

Economic report

Economic environment

General economic conditions provided no significant impetus for the Deka Group’s business in the reporting year. The extremely strong share price performance on stock markets failed to boost demand from private investors for securities funds to any considerable extent. Overall share of investment fund business in the financial asset formation of German households remained small. In addition, the market environment for retail certificates was weaker than in previous reporting periods.

Compared with 2012, there was no substantial change in the situation on money and capital markets. An ample supply of liquidity on the markets and a further cut in the eurozone’s key interest rate restricted the return achievable by many types of investments. Furthermore, they resulted in modest demand for liquidity from institutional counterparties. Conversely, the Deka Group benefited from the further tightening of credit spreads. This once again produced positive valuation effects in both bond portfolios and capital market credit products.

Overall economic conditions

Global economic growth slowed somewhat last year. Emerging markets, in particular, were unable to maintain the previous year’s growth rates overall. However, by year-end 2013, China had exceeded dampened expectations to match the previous year’s high growth rate of 7.7%. As in other emerging markets, modest growth also affected exports in industrialised countries. In addition, financial market investors held back after the early announcement by the US central bank of its intention to reduce the bond buying programme, i.e. to begin tapering, which the Fed then eventually implemented in December 2013. This made financing conditions more difficult.

In established national economies across the globe, growth rates, although low, started to gain momentum again. However, the USA failed to fulfil its potential, partly owing to the fiscal dispute in the first half of 2013. Its economic growth was more dynamic in the second half of the year, and the partial spending freeze in October made practically no impact at all. This suggests that the effects of the automatic spending cuts resolved in spring 2013 are gradually diminishing.

After negative growth in the first quarter of 2013, the eurozone overcame the recession during the remaining months of the year. A robust trend in Germany was particularly significant in this respect. Economic conditions in the peripheral countries, notably Spain, also improved slightly. However, the problems linked to growth in France, Italy and other countries highlight the fact that the eurozone recovery remains fragile. It will only be consolidated if reforms are consistently implemented in affected countries on a sustainable basis.

Prospects in the German market brightened throughout the year, partly as a result of the stabilisation in the eurozone environment. Year-on-year, GDP was up by 0.4%. The rise in demand for investments reflects better sales prospects for German companies. In a further pleasant development, consumption continued to grow steadily.

Ongoing modest economic growth, a moderate trend in commodity prices and declining wages in the countries most affected by the crisis meant that the rate of increase in prices also remained at an extremely low level. However, in view of the new impetus for growth, DekaBank considers the risk of deflation to be low.

The downward trend in inflation further increased the central banks’ leeway for expansionary monetary policy. This proved to be a key factor which provided impetus in the global financial markets throughout the year in 2013. The European Central Bank (ECB) continued its unlimited liquidity supply to the markets and has made no announcement to date that it will change this policy. In November 2013, the ECB responded to the falling rate of inflation by cutting the key interest rate to a record low of 0.25%, giving a clear signal that there is no end in sight with regard to low interest rates.

In view of the currently low rate of inflation, the risk of continuing asset erosion as a result of the 'real interest rate trap' is increasing. Consequently, securities are becoming a more important part of households' efforts to build up assets. However, private investors are only very slowly becoming aware of the risk of asset erosion.

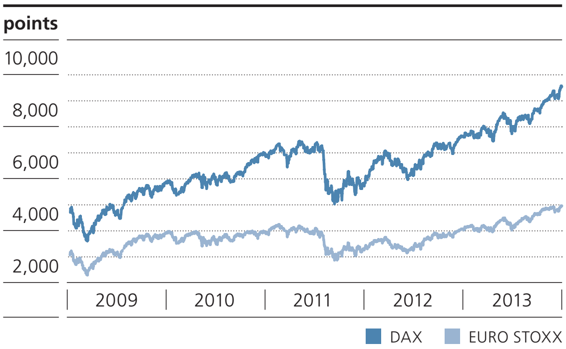
Sector-related conditions

Trends in capital markets

In 2013, the equity markets achieved record levels in many countries. The DAX closed the year up 25.5% (Fig. 2). Second-tier and te chnology stocks also recorded a double-digit increase on average. The withdrawal of foreign capital from many emerging markets caused considerable turmoil on stock exchanges in the second and third quarters of 2013. However, the negative impact on the real economy remained limited.

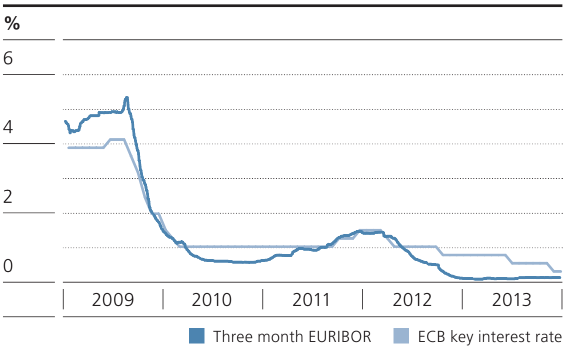
In the bond markets, yields on low-risk government bonds increased perceptibly for a time, in response to expectations that a turnaround in interest rates was slowly approaching (Fig. 3). The Fed's tapering announcement halfway through the year, indicating that it would gradually phase out its programme of quantitative easing (QE3), impacted heavily on the bond markets. Even German government bonds with long maturities were affected by the sudden increase of almost 100 basis points. However, when the expected reduction in bond buying by the US central bank initially failed to materialise and the ECB cut interest rates further, buying of US Treasuries and Bunds rose again. Nevertheless, the upward trend in yields on long maturities reflects expectations that liquidity supply is set to diminish and the recovery in the eurozone will gradually take hold. The Fed's announcement in December 2013 that it would begin tapering from the start of 2014 had very little impact on the capital markets.

Performance of the DAX and EURO STOXX 2009–2013
(Fig. 2)



Source: Bloomberg

EURIBOR and ECB key interest rate 2009–2013
(Fig. 3)



Source: ECB, Bloomberg

Yields on *Pfandbriefe* and European corporate bonds fell slightly overall. Risk premiums (credit spreads) tightened on a broad scale again in 2013 as the financial markets stabilised. Narrowing in spreads was particularly marked in the peripheral countries. Improved funding conditions resulted in brisk issuing activities. However, investors were once again forced to accept yields that were down on the previous year's level.

Trends in property markets

The low interest rate environment also adversely affected European property markets in the course of the year. Just as yields on government bonds from countries with high credit ratings were low, investors also faced very low yields on top properties. Within Europe, yields in London and Paris were particularly low, along with locations in Germany and Scandinavia, whereas yields rose in the southern eurozone countries.

In view of ongoing difficulties in the labour markets of many southern European countries, top rents were stagnant in most office property markets. However, there was only a modest increase in vacancy rates in the course of the year. In Germany, the continuing reduction of surplus supply produced a minor increase in rents in the major locations.

Overall, earnings prospects for the European property markets are currently limited. Investors are therefore increasingly focusing on markets outside Europe. Limited availability of attractive investment properties at justifiable prices represents a major challenge in property-related asset management.

In the USA, the recovery continued in the office rental markets. Demand for class A office space rose steadily in the course of the year. Decreasing vacancy rates indicate that smaller markets, which had been hit particularly hard by the decline in house prices, are closing the gap to other markets.

The trend in Asian office property markets from the beginning of the year was weaker than in the previous year. Growth in rents for the region as a whole has remained flat for almost two years, with the exception of Tokyo where top rents rose slightly. In Australia, a weak economy considerably dampened the demand for office space. This was reflected by a decrease in the actual level of rent achieved in some cases.

Investor attitudes

Despite very low interest on deposits and an associated erosion of assets, German private investors have been very hesitant about including securities in their investment decisions. The upturn in equity prices was primarily driven by institutional investors and largely passed retail investors by.

Nevertheless, the stabilisation of the financial markets and brighter prospects for companies impacted positively on sales of mutual fund units. The BVI's investment statistics indicated net funds inflows of €15.3bn (excluding open-ended property funds), compared with €21.6bn in the previous year. Equity funds in particular lost ground again in the second half of the year. At the same time, mixed funds remained in demand. Alongside equity funds, capital protected funds and money market funds recorded net funds outflows, albeit at a lower level than in the previous year.

For open-ended mutual property funds, the environment in the sector continued to be adversely affected by the temporary closure and imminent winding-up of some competitor investment funds. Interest in the final months of 2013 also waned in view of the changes in regulatory conditions. However, following a high level of funds inflows in the first half of the year, net funds inflows of €3.4bn in total exceeded the previous year's level (€2.8bn).

At €76.7bn, the volume of net funds inflows for special funds for institutional investors was slightly higher than in the previous year (€75.5bn).

The volume of transactions in retail certificates traded in the Euwax trading segment of the Stuttgart stock exchange and on the Frankfurt stock exchange was 4.8% down on the previous year's level. The decrease was more marked for leveraged certificates (–7.4%) than that for investment certificates (–3.1%).

Regulatory provisions

Planned regulatory changes and further regulatory changes that are under discussion will result in more stringent capital requirements and reporting duties – for both the Deka Group and the savings banks. They require even closer cooperation with the aim of avoiding regulatory risks and limiting the associated expenses.

Regulatory topics

The Basel III reform package was adopted at EU level during the reporting year. The new regulatory requirements were stipulated in the EU's Capital Requirements Regulation (CRR) and the EU's Capital Requirements Directive (CRD IV). The Regulation applied immediately on coming into force, without implementation into national law. Accordingly, all the provisions stipulated regarding the composition of equity and capital requirements, large-scale loans and the leverage ratio as well as liquidity supply and disclosure have applied throughout the EU from 1 January 2014. The CRD IV directive includes regulations governing the authorisation of financial institutions and securities companies as well as governance and the supervisory framework. The Act on implementing the CRD IV also came into force on 1 January 2014. In the run-up to its implementation, the regulatory authorities already presented further proposals. However, some details of the proposed provisions have yet to be established. DekaBank prepared extensively for implementation of the new provisions in the CRR and CRD IV and will submit its first report under the new regulatory requirements on 31 March 2014.

Negotiations among the eurozone member states on the proposed banking union were almost concluded at the end of 2013. The first step will involve the ECB taking over supervision on 1 November 2014 of the approximately 130 banks which have been categorised as too big to fail. These banks, among them DekaBank, have been subject to a comprehensive risk assessment by the ECB since the fourth quarter of 2013. In addition to all major banking risks, balance sheets will also be examined from 2014 onwards, primarily to assess quality and measurement of material assets, but also to consider the valuation of the banks' loan collateral and risk provisions. A forward-looking stress test forms the third element of the review. It will be conducted in consultation with the European Banking Authority (EBA). The results are scheduled for publication in November 2014.

In June 2013, the German *Bundesrat* (Federal Council) approved legislation on protection against risks and on planning the reorganisation and winding up of banks and financial groups (*Trennbankengesetz* – Separate Banks Act). As is the case with the draft minimum requirements for recovery plans (*Mindestanforderungen an die Ausgestaltung von Sanierungsplänen* – MaSan) set out by Germany's Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* – BaFin), Article 1 of the Act, which came into force in August 2013, includes a requirement to ensure that systemically important banks have the capacity to act in crisis situations. In accordance with the MaSan, banks classed as too big to fail – including DekaBank – must develop their own restructuring plans and update them annually. Accordingly, DekaBank submitted a plan to BaFin during the 2013 financial year. Article 2 of the Separate Banks Act, which came into force on 31 January 2014, stipulates that banks must undertake to hive off specific proprietary transactions into subsidiaries that are legally independent of deposit-taking business. It is not yet possible to foresee the impact of these provisions on the Deka Group, due to the fact that no parameters have been specified for calculating threshold values.

Product and performance-related regulatory proposals

On 23 December 2013, the Act on amending the Investment Tax Act and other acts to align them with the Alternative Investment Fund Managers Tax Adjustment Act (AIFM-StAnpG) was published in the Federal Gazette. It includes provisions for product tax regulation independent of supervisory law. The long-awaited act removes legal uncertainty about tax, which had arisen since the introduction of the German Investment Code (*Kapitalanlagegesetzbuch* – KAGB) in July 2013 due to the absence of adjustments regarding taxation of investments. No significant impact is expected on the Deka Group as a result of the new regulations.

The KAGB introduced new provisions on the redemption of units in open-ended property funds. The allowance applicable to same trading day redemption of up to €30,000 per calendar half-year, which came into force as specified in the Act to strengthen investor protection and improve the functioning of the capital market (AnsFuG) on 1 January 2013, now only applies to investors who bought the relevant fund units before 22 July 2013. The 24-month minimum holding period and 12-month redemption period therefore apply for any fund units bought after 22 July 2013, starting from the first euro, whereas they only apply to fund units bought earlier if the relevant redemption volume exceeds €30,000 per calendar half-year. For fund units acquired before 1 January 2013, the minimum holding period continues to be considered as met. Initial findings show that investor interest in the Deka Group's steadily performing property investment funds has been only marginally affected by the new provisions.

Another regulatory project that may impact on the financial sector and DekaBank's business activities is the planned introduction of a financial transaction tax (FTT) in eleven EU member states, including Germany. The FTT will cover a wide range of financial instruments and control speculative trading. At present, no details are available on the exact structure of the financial transaction tax and the date on which it will come into force. Taxation of non-speculative buying and selling of units in the Deka Group's investment funds would impact on the Group's earnings and make long-term pension products, for example, less attractive. However, such regulations would also affect competitor products and the marketplace as a whole.

The switch to the single euro payments area (SEPA) was implemented by the Deka Group before the required deadline.

On 14 January 2014, the German Federal Court of Justice (*Bundesgerichtshof* – BGH) dismissed an action brought by the Federation of German Consumer Organisations (*Verbraucherzentrale Bundesverband*) against a major bank which uses the *Behaltensklausel* (retention clause) for sales commission, confirming the legality of the disputed clause. The inclusion of this clause in documentation meant that customers confirmed the bank's entitlement to keep any commission obtained as part of commission business, regardless of customers' potential claim to recovery. However, in its decision, the BGH deliberately left open the question as to whether customers have a claim to recovery. The decision has no immediate impact on securities business in the *Sparkassen-Finanzgruppe*. In the *Sparkassen-Finanzgruppe*, it is assumed as before that no claim to recovery exists on the part of customers. Nevertheless, it cannot be ruled out that the BGH may affirm customers' claim to recovery in future proceedings. DekaBank has amended the general terms and conditions of the DekaBank securities account to the effect that execution based on a fixed quotation is also possible alongside the previously envisaged commission business. The amendments to the general terms and conditions will apply from 1 April 2014 onwards.

Business development and profit performance in the Deka Group

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

In the reporting year, the Deka Group recorded good business development and a sound profit performance. As forecast, the economic result virtually matched the previous year's high level and was therefore very satisfactory considering the current market environment. This is particularly true in view of the fact that the result included charges relating to investment for the future totalling in excess of €100m arising from the acquisition of LBB's customer-oriented capital market business and restructuring provisions for the alignment of the Group's business model.

In Asset Management, the sales situation improved. At €4.8bn, the volume of net sales was clearly positive (previous year: €0.1bn). It was primarily attributable to funds inflows in institutional business. With regard to mutual funds and fund-based asset management, the Deka Group achieved an increase in net sales compared with 2012. The aim is to further exploit the potential of the *Sparkassen-Finanzgruppe*. This underscores the need for the measures taken on the product and sales sides. The Deka Group's investment funds achieved a good overall performance for investors. Assets under management amounted to €169.8bn, which represents an increase of 4.4%. Furthermore, business with retail certificates was successfully launched.

In capital market and financing business, the fully-fledged securities service provider achieved its operational targets. The Deka Group's role as a liquidity platform and key funding provider of the savings banks was further expanded. Contributions from net interest income, net commission income and net financial income met ambitious targets. However, in a market with a surplus supply of liquidity and low yields, the figures were below the previous year's level. The level of risk provisions normalised following the transfer of high net amounts in the previous year. This reduced charge impacted positively on income.

Overall, the Deka Group generated a high added value contribution of around €1.3bn, matching the figure of the previous year. Utilisation of overall risk-bearing capacity remained at a comfortable level, as was also the case for liquidity. The Deka Group is in a position to absorb the cost of ongoing implementation of the transformation programme, including the integration of the LBB activities acquired, as well as for future regulatory adjustments.

However, in addition to managing risk-weighted assets actively, future reinvestment on the basis of high net income will also be required to achieve the target core tier 1 capital ratio of 12% in 2016.

Comparison of forecast and actual growth

The targets published in the 2012 Group management report were consistently met, and, as expected, the economic result of €501.5m came close to matching the previous year's strong performance.

A slight downward trend had been forecast for the Deka Group's total income. In fact, this figure remained at a steady level overall. Net interest income was down, as expected, due to a lower volume of business. However, lower risk provisions required in line with expectations more than offset this development. Net commission income was similar to the previous year's figure, as had been forecast.

In terms of costs, the Deka Group also matched expectations. A slight reduction in administrative expenses was achieved despite the additional cost of the transformation process.

With regard to sales of asset management products, the net performance of the Securities business division was positive, in line with expectations, and significantly exceeded the previous year's level. As expected, net sales in the Real Estate business division were as high as in 2012.

Ratings

Strong ratings are essential to smooth implementation of the Deka Group's business model. They have a major impact on the terms at which the fully-fledged securities service provider obtains funding on the capital markets and its ability to perform its role as liquidity platform.

In the reporting year, the Bank consistently maintained its strong ratings compared with the sector as a whole. In October 2013, Standard & Poor's (S&P) affirmed DekaBank's ratings with a stable outlook as part of its regular review. The ratings have therefore remained A (long-term) and A-1 (short-term).

The long-term rating from Moody's for DekaBank was A1 – as was the case in the previous year – and the financial strength rating was C–, both with a stable outlook. The short-term rating of P-1 also remained unchanged.

Profit performance of DekaBank

DekaBank again achieved a satisfactory result in the past financial year. Net interest income, net commission income, trading income and other operating income together totalled €1,287m.

Net interest and investment income increased by €124m to €574m (previous year: €450m). Net interest income rose by 91% year-on-year to €236m. At €337m, net investment income was nearly 4% higher than in the previous year, owing to higher profit transfers and lower expenses from loss transfers. Net commission income also increased and, at €158m, was slightly above the previous year's figure of €155m. With a trading profit of €228m (previous year: €295m), ordinary operating income reached €1,287m, an increase of €78m on the previous year.

Other operating income amounted to €328m (previous year: €309m). Intra-Group services again accounted for the largest share.

Operating expenses increased by 19.5% in the year under review to €851m. Operating expenses including depreciation and amortisation fell slightly by 5.6% to €367m. Taking into account these effects, the operating result before risk stood at €437m, €61m lower than the previous year's figure. The combined net valuation result in lending, securities and investment business amounted to €41m in the year under review (previous year: € 15m). The positive valuation result reflects lower risk provisions in lending business compared with the previous year due to reduced additions to specific valuation allowances.

After deduction of income taxes and the allocation to the fund for general banking risks to strengthen core capital, DekaBank achieved an operating result after taxes of €107m (Fig. 4).

Profit performance in the DekaBank *(Fig. 4)*

€m	2013	2012	Change	
Net interest income and net income from equity investments	574	450	124	27.6%
Net commission income	158	155	3	1.9%
Trading result	228	295	–67	–22.7%
General administrative expenses	652	661	–9	–1.4%
Risk provision/valuation	41	–15	56	(>300%)
Income tax	145	143	2	1.4%
Net income after tax	**107**	**111**	**–4**	**–3.6%**

Business development in the business divisions

Business development in the Securities business division

Overall, the Securities business division's performance in the year under review was encouraging. Net sales in mutual securities funds improved compared with the previous year, but redemptions outweighed sales. Thanks to inflows in special funds and mandates, new business grew for the division as a whole. Assets under management also increased, partly due to good value growth.

Net sales performance

Net sales in the Securities business division were €3.1bn (previous year: €–1.5bn) (Fig. 5). For mutual securities funds and fund-based asset management (including ETF index funds), net sales performance improved year-on-year from €–3.4bn to €–1.6bn. For direct sales of actively managed mutual funds, the negative balance of €–1.9bn reported in the previous year narrowed to €–1.4bn, largely because of reduced net outflows from capital protected funds. Mixed funds achieved a net sales performance of €1.5bn, primarily due to substantial purchases of units in the first half of the year, thereby surpassing the already high comparative figure for 2012 (€1.3bn).

In fund-based asset management, net sales performance improved to €–0.5bn (previous year: € –1.8bn), aided in large part by Deka-Vermögenskonzept (Deka Wealth Concept), whose net sales performance increased to €0.9bn (previous year: €0.6bn). Funds of funds also performed considerably better than in 2012, thanks in particular to the success of Deka-BasisAnlage (Deka Basic Investment). As in the previous year, ETF index funds achieved a positive balance.

For special securities funds, master funds and mandates for institutional investors (advisory/management mandates), the business division's net sales performance more than doubled to €4.7bn compared with the previous year's figure of €1.9bn.

Net sales performance in the Securities business division *(Fig. 5)*

€m	2013	2012
Direct sales mutual funds	–1,378	–1,912
Fund-based asset management	–476	–1,770
Mutual funds and fund-based asset management	**–1,854**	**–3,682**
ETF index funds	280	318
Special funds and mandates	4,699	1,867
Net sales performance Securities business division	**3,125**	**–1,497**
For information purposes:		
Net funds inflow Securities business division (according to BVI)	**2,214**	**–2,348**

Assets under management and performance

Assets under management in the Securities business division grew from €137.4bn to €143.3bn in the year under review (Fig. 6). The 4.3% increase was primarily due to good value growth. At the end of the year, 79.4% of equity funds (end of 2012: 51.2%) outperformed their respective benchmarks. The outperformance rate for bond funds fell to 78.4% (previous year: 94.9%). Morningstar rated 34.7% of funds (end of 2012: 35.0%) as above-average.

For institutional products, assets under management increased to €56.3bn (previous year: €53.0bn), in particular due to strong performance from special securities funds.

Assets under management in the Securities business division *(Fig. 6)*

€m	31.12.2013	31.12.2012	Change	
Equity funds	19,452	18,018	1,434	8.0 %
Capital protected funds	2,231	3,243	–1,012	–31.2 %
Bond funds	32,334	33,583	–1,249	–3.7 %
Money market funds	235	225	10	4.4 %
Mixed funds	13,225	11,666	1,559	13.4 %
Other mutual funds	3,834	4,483	–649	–14.5 %
Own mutual funds	**71,311**	**71,218**	93	0.1 %
Partner funds, third party funds/liquidity in fund-based asset management	7,876	6,746	1,130	16.8 %
Partner funds from direct sales	2,431	2,121	310	14.6 %
Mutual funds and fund-based asset management	**81,618**	**80,085**	1,533	1.9 %
ETF index funds	**5,456**	**4,308**	1,148	26.6 %
Special securities funds	39,528	37,132	2,396	6.5 %
Advisory/management mandates	8,367	8,566	–199	–2.3 %
Advisory from master funds	8,357	7,318	1,039	14.2 %
Special funds and mandates	**56,252**	**53,016**	3,236	6.1 %
Assets under management Securities business division	**143,326**	**137,409**	5,917	4.3 %
For information purposes:				
Fund assets – mutual funds Securities business division (according to BVI)	**96,087**	**94,784**	1,303	1.4 %
Fund assets – special funds Securities business division (according to BVI)	**61,075**	**54,576**	6,499	11.9 %

Business development in the Real Estate business division

Though market and sector conditions remained difficult, net sales performance in the Real Estate business division increased slightly year-on-year. The division came close to meeting its predefined sales quotas in open-ended property funds for private customers in full. In addition, the division raised institutional capital for special funds and individual property funds at roughly the same level as the previous year. Strict management of liquidity and returns meant that the funds performed in line with the market.

Net sales performance

Sales of open-ended mutual property funds, which are managed via sales quotas, remained at the previous year's level of €1.3bn, of which €1.2bn (previous year: €1.1bn) was attributable to retail funds (Fig. 7). Again, roughly one third of this figure was due to reinvestment of distributions. As in 2012, the largest quota related to Deka-ImmobilienEuropa, which accounts for more than half of the fund assets of the Deka Group's open-ended property funds and meets with strong demand from savings bank customers.

Institutional products achieved combined net sales equal to the previous year's figure of €0.5bn. The main sales contributors were again WestInvest ImmoValue, which is available for savings banks' own investments, the Deka Immobilien Investment credit funds and the single-sector property funds in the TargetSelect range. Together they recorded net sales of €310m (previous year: €384m). A further €34m flowed into WestInvest's institutional products via Deka-Immobilien StrategieInstitutionell, which was launched at the end of 2012. The Domus Deutschland fund, designed to provide optimal, tax-efficient distributions, was launched at the end of 2012 and was fully placed thanks to strong demand from savings banks, insurance companies and public-sector pension associations. The division continued to build up the fund's property portfolio successfully in 2013, resulting in sales of €87m.

Net sales performance in the Real Estate business division *(Fig. 7)*

€m	2013	2012
Mutual property funds	1,300	1,302
Special funds (including credit funds)	314	215
Individual property funds	20	67
Net sales performance Real Estate business division	**1,634**	**1,584**
of which to institutional investors	460	447
For information purposes:		
Net funds inflow Real Estate business division (according to BVI)	**1,648**	**1,289**

Assets under management and performance

Assets under management performed well. Compared with the end of 2012, volume increased by approximately €1.2bn to €26.5bn (Fig. 8), due to high demand from mutual funds in particular, but also thanks to growth in the value of the assets held. At the end of 2013, the mutual property funds' assets under management stood at €22.5bn, representing a year-on-year increase of around 5% (€21.4bn). As measured by the mutual funds' assets according to BVI, the Real Estate business division increased its market share to 27.6% (end of 2012: 26.0%), and thus ranks second in the sector according to the BVI definition.

At the end of 2013, institutional products accounted for €5.5bn of assets under management (end of 2012: €5.1bn).

Thanks to a conservative strategy and approach to liquidity management, open-ended mutual property funds generated an average annualised volume-weighted yield of 1.9% during the year (previous year: 2.4%). Compared with other investment products with a similar risk profile, the Deka Group's property funds continue to represent an attractive investment. The average liquidity ratio of open-ended mutual property funds remained unchanged at around 20%.

The average occupancy rate improved by approximately one percentage point compared with the previous year to 92.7%. Total transaction volume (property purchases and sales) totalled €2.7bn in the year under review, of which roughly 75% related to property purchases. Deka Immobilien secured contracts to purchase 23 properties in 2013, once again making the business division one of the world's largest property investors. Due to ever more serious stresses in peripheral countries, buying opportunities were increasingly sought outside the eurozone, particularly in the United Kingdom.

The percentage of properties in the portfolio certified as sustainable – as a proportion of property assets – increased to 34%. In October 2013, the open-ended mutual property funds WestInvest InterSelect and WestInvest ImmoValue received awards from the Scope rating agency in the "Sustainability" category. In particular, Scope highlight the fact that WestInvest InterSelect had the largest number of sustainable properties ever contained in one portfolio.

Deka Immobilien Investment's credit funds acquired a total of 24 loans in the year under review with a volume of €251.3m. The number of loans purchased since the fund was launched thus rose to 75. At the end of 2013, the loan volume in the financing categories of property, infrastructure and transport amounted to €671.9m. The portfolio comprised five credit funds for institutional investors. As well as Deka Realkredit Klassik and Deka Infrastrukturkredit, which invest in commercial property and infrastructure financing worldwide, we are increasingly catering for individual fund mandates, specifically geared to individual investors' needs.

Assets under management in the Real Estate business division *(Fig. 8)*

€m	31.12.2013	31.12.2012	Change	
Mutual property funds	22,469	21,437	1,032	4.8 %
Special funds (including credit funds)	3,298	2,985	313	10.5 %
Individual property funds	703	816	–113	–13.8 %
Assets under management Real Estate business division	**26,470**	**25,238**	1,232	4.9 %
For information purposes:				
Fund assets Real Estate business division (according to BVI)	**25,150**	**23,788**	1,362	5.7 %

Real estate lending

New business arranged in real estate lending totalled €1.8bn, including extensions in the amount of €0.4bn (previous year: €0.6bn). Due to increased price competition compared with previous years and a greater appetite for risk among other providers, it was not possible to match the previous year's excellent figure of €3.1bn. At €1.2bn, the level of external placements was high (previous year: €1.8bn), despite a significant reduction in new business. Once again, over half of the loans placed with third parties were granted to members of the *Sparkassen-Finanzgruppe*, in order to meet demand for loan participation.

Gross loan volume fell to €6.1bn against €7.7bn at year-end 2012, partly in view of the decline in new business, but above all because of higher repayments and currency effects. The average rating for the loan portfolio according to the DSGV master scale improved from 7 to 6 during the year under review. This corresponds to a rating of BB+ on S&P's external rating scale. Including the portfolio secured by collateral, the rating stood at A- (previous year: 4), which is likewise A– on S&P's scale (previous year: BBB–).

Of the total portfolio, €4.8bn (end of 2012: €5.7bn) related to commercial property financing, approximately €1bn (end of 2012: €1.6bn) to open-ended property fund financing and €0.3bn (end of 2012: €0.4bn) to financing for public-sector construction projects, a segment which is being phased out.

Business development in the Capital Markets business division

The Capital Markets business division encountered difficult market conditions, but nevertheless achieved its operating targets. Despite the declining trend of interest rates during the year, the repo/lending business contributed significantly to earnings, thus underlining the division's importance as a liquidity platform for investment funds, savings banks and the Deka Group. Income from bond trading activities was on target, and the division exceeded its income targets in derivatives trading and commission business. Structuring and issuance activity was successfully extended to include certificate business for private investors.

Business development in the Capital Markets business division

Customer demand for liquidity was subdued compared with the previous year, due to continuing over-supply of the market with liquidity from central banks. In repo/lending operations, the business division nevertheless transacted the planned level of customer-driven business. As expected, the result did not keep pace with the previous year's positive figure, which was affected by very high volatilities. In money market and foreign exchange trading, the business division benefited from higher valuations of bond holdings. Customer-driven business was expanded in the area of structuring and own issues. DekaBank was able to use its extensive experience of institutional certificate business and close contacts with savings banks to launch the retail certificate business at the beginning of 2013. At the end of the year, these products were already being offered by around 80% of savings banks.

The savings banks' ability to use the business division's status as a clearing member (CCP) had a positive impact on business activity. The business division recorded increased activity among savings banks and other institutional customers in derivative and bond trading. Commission trading made a higher than expected contribution to earnings, which nevertheless fell short of the comparative figure for 2012 in view of declining market volatility.

Business development in the Financing business division

In the Financing business division, new business in savings bank financing almost doubled in the year under review, thereby strengthening the Deka Group's role as a central refinancing institution for savings banks. Overall, however, the business division's loan portfolio remained below the previous year's figure.

Business development in the Financing business division

Volume of new business arranged increased to €3.3bn in the year under review (previous year: €2.6bn). Savings bank refinancing accounted for approximately 88% of new business arranged. A modest volume of new business was transacted in the other segments (€0.4bn), with the focus remaining on loans with the potential to participate on the capital markets.

Despite the modest level of new business, the volume placed externally amounted to €0.3bn (previous year: €0.6bn), a large proportion of which is attributable to a credit fund for loans to the transport sector.

Compared to the figure at the end of 2012, the gross loan volume decreased as expected by €2.7bn to €20.6bn. Of this amount, €13.3bn related to the savings bank financing segment, €4.4bn to the transport and export finance segment – including ship financing to the value of €1.3bn – and approximately €2.8bn to the infrastructure financing segment.

The average rating for the loan portfolio according to the DSGV master scale improved from 6 to 5 during the year under review. This corresponds to a rating of BBB– on S&P's rating scale.

Business development in non-core business

In non-core business, DekaBank continued its strategy of portfolio reduction whilst safeguarding assets. The gross loan volume of lending business and credit substitute transactions that are not part of our core business fell to €3.0bn as at year-end 2013 (end of 2012: €4.3bn). This helped reduce the level of risk to which the Deka Group is exposed.

The gross loan volume in the lending portfolio decreased over the year from €2.4bn to €1.7bn, while the volume of capital market credit products declined from €1.9bn to €1.3bn. As well as certain positions reaching final maturity, selective sales also had an impact.

Financial position and assets and liabilities of the Deka Group

Financial management principles and objectives

DekaBank is the central liquidity provider for funds held by capital management companies and for the *Sparkassen-Finanzgruppe*. To perform this function in an economically viable manner, it actively manages its surplus liquidity.

The Treasury Corporate Centre manages the securities in the strategic liquidity reserve, taking into account the liquidity and credit risk strategy and working within the parameters set by the Management Committee Assets/ Liabilities (*Managementkomitee Aktiv-Passiv* – MKAP) (Risk report, page 32).

The ability to generate liquidity quickly and ensure the Bank's solvency even under stress situations has the highest priority. For many years, DekaBank has held a large volume of highly liquid assets of central bank quality. Due to high liquidity in the banking book and the trading book as well as good ratings compared with competitors, it can also generate larger amounts through the repo market.

Treasury also seeks to diversify investments as widely as possible by region, sector and counterparty, within defined limits. Liquidity investments are currently 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, which serve as a liquidity reserve for the Bank.

A third objective is to manage the liquidity investments as economically as possible. Through Group-wide setting of transfer prices, Treasury plays a significant role in managing the balance sheet structure. As well ensuring that regulatory requirements are observed, it has also defined and implemented stricter internal basic principles and clear responsibility structures. Important aspects of the liquidity and collateral management system include, amongst other issues, completeness of all relevant transactions at a granular level and Group-wide uniform pricing.

For refinancing, the Deka Group uses standard and structured issues, European Medium Term Notes (EMTN) and Commercial Paper (CP) programmes as well as issues of public-sector and mortgage *Pfandbriefe*. It also has recourse to national and international money and capital markets.

The aim of the Deka Group's equity management activities is to ensure adequate capital and reserves to carry out the business strategy. A target of 12% has been defined for the core tier 1 capital ratio.

Derivative financial instruments are used for trading purposes and to hedge interest rate risks, currency risks and other price risks. DekaBank does not have extensive open currency positions. Details of derivative transactions can be found in notes [17], [45], [55] and [68] to the consolidated financial statements of Deka Group.

Financial position, capital structure, assets and liabilities

DekaBank's business volume contracted by €15.8bn, or 11.5%, in 2013, to €122.0bn (previous year: €137.8bn). Total assets fell by €13.5bn, or 10.3%, from €130.8bn to €117.3bn (Fig. 9). Amounts due from customers decreased by €3.0bn to €15.1bn and thus account for around 12.9% of total assets. Amounts due from banks fell by €4.4bn to €20.0bn (previous year: €24.4bn), corresponding to 17.1% of total assets (previous year: 18.7%). The held for trading position decreased by €4.4bn to €60.7bn, equivalent to 51.7% of total assets.

Amounts due to customers fell to €16.3bn (previous year: €18.3bn). Amounts due to banks rose by €1.9bn to €22.2bn (previous year: €20.3bn). Securitised liabilities decreased by €6.7bn to €28.1bn. The held for trading position amounted to €45.3bn. On-balance sheet equity remained at the previous year's level of €1.2bn and accounted for 1.0% of total liabilities (previous year: 0.9 %).

Balance sheet changes in the DekaBank *(Fig. 9)*

€m	31.12.2013	31.12.2012	Change	
Balance sheet total	**117,287**	**130,811**	**–13,524**	**–10.3%**
Selected items on the assets side:				
Due from banks and customers	35,128	42,514	–7,386	–17.4%
Bonds and other fixed interest securities	16,199	15,175	1,024	6.7%
Trading portfolio	60,650	65,010	–4,360	–6.7%
Selected items on the liabilities side:				
Due to banks and customers	38,534	38,609	–75	–0.2%
Securitised liabilities	28,091	34,785	–6,694	–19.2%
Trading portfolio	45,271	52,091	–6,820	–13.1%

Change in regulatory capital

As the parent company of a banking group, DekaBank made use of the "parent waiver" in accordance with Section 2a (6) of the German Banking Act (KWG) for the first time as at 31 December 2013. As a result, DekaBank did not calculate capital requirements pursuant to Section 10 of the KWG or monitor and report large-scale loans pursuant to Sections 13 and 13a of the KWG at single-entity level. For this reason, the change in regulatory capital at Bank level is not reported separately.

Capital adequacy is determined in accordance with the German Solvency Regulation (SolvV). In addition to default risks and market risk positions, amounts for operational risks are taken into account when calculating capital adequacy. Capital and reserves requirements under banking supervisory law were complied with at all times during the year under review, both at Bank level and at the level of the Deka Group.

Silent capital contributions are not included when calculating the core tier 1 capital; these are not within the scope of the transitional arrangements under Basel III and are no longer available as core tier 1 capital. The core tier 1 capital ratio amounted to 13.1% at year-end 2013. In view of more stringent regulatory requirements from 2014 onwards following the application of the Basel III regulations, this figure is expected to fall below the 2013 level in future years. It is anticipated that the target ratio of 12% will not be reached until 2016, and only if profits are reinvested according to plan.

The increase compared with the situation at year-end 2012 (11.6%) is due to the retention of 2012 profit and reduced positions in core and non-core business. The increase in market risk positions arises from a slight increase in interest rate risks and share price risks. This is mainly due to the expansion of issuance activity in structured certificates and associated hedging transactions. The equity ratio rose to 17.0% (previous year: 16.2%) (Fig. 10).

Breakdown of equity in the DekaBank Group *(Fig. 10)*

€m	31.12.2013	31.12.2012	Change
Core capital	3,495	3,301	5.9 %
Supplementary capital	329	535	−38.5 %
Tier III capital	–	–	n/a
Capital and reserves	**3,824**	**3,836**	−0.3 %
Default risks	13,850	15,813	−12.4 %
Market risk positions	6,813	6,088	11.9 %
Operational risks	1,799	1,710	5.2 %
Risk-weighted assets	**22,462**	**23,611**	−4.9 %
%			Change %-points
Core capital ratio	**15.6**	14.0	1.6
Core tier 1 capital ratio (excluding silent capital contributions) [1]	**13.1**	11.6	1.5
Equity ratio	**17.0**	16.2	0.8

[1] Excluding potential RWA effects (risk-weighted assets) resulting from Basel III.

Liquidity and refinancing

As a capital market-oriented bank, DekaBank has to comply with the liquidity management requirements set out by the regulator under MaRisk (Minimum Requirements for Risk Management). These requirements stipulate that banks must hold sufficient levels of funds, and highly liquid assets eligible as collateral for central bank borrowing, to enable them to bridge a short-term refinancing requirement in the event of a stress scenario for a minimum of one week. For a period of at least one month, further components of the liquidity reserve may be used, provided they can be turned into cash without significant loss in value and regulatory requirements are complied with.

DekaBank met both requirements comfortably. In accordance with the regulatory definition, the highly liquid securities cover a potential cash outflow in the combined stress scenario across all maturity bands, instead of the first month specified by MaRisk. DekaBank's liquidity position remains very strong even under the specific stress conditions considered. In the short-term maturity band of up to one month, all the stress scenarios analysed resulted in liquidity surpluses.

The regulatory requirements of the German Liquidity Regulation (*Liquiditätsverordnung*) were likewise exceeded throughout the reporting period. The annual average for the liquidity ratio of the first maturity band, determined on a daily basis, was 1.32 (previous year: 1.40), and remained within a range of 1.24 to 1.48 during the year. As at the 2013 reporting date, the ratio stood at 1.41 (end of 2012: 1.27).

Further information regarding the Deka Group's liquidity situation can be found in the risk report on pages 61 to 63.

Refinancing is carried out using conventional money market and capital market instruments, including the issuance of public-sector *Pfandbriefe*, mortgage *Pfandbriefe* and short-term bearer bonds based on the CP Programme, as well as medium to long-term bearer bonds based on the EMTN Programme. DekaBank also uses the repo and lending markets, call money and time deposits to raise and invest liquidity. More information is given in note [69] to the consolidated financial statements. Information on maturities and interest rates, and all securities prospectuses, can also be found on DekaBank's website (www.dekabank.de).

Human resources report

Changes in the staff complement

In the context of the Deka Group's transformation into a fully-fledged securities service provider, the workforce increased slightly to 3,538 (end of 2012: 3,506) during the year under review. By the end of the year, more than 50 new employees had been recruited to increase sales support. A moderate expansion of the Real Estate business division's workforce was also needed in order to implement the extended regulatory requirements and manage the steadily growing property portfolio. The acquisition of LBB's customer-oriented capital market business at the end of 2013 increased the number of staff by 67. This enlargement of the workforce was offset by staff reductions in head office departments. The average number of staff employed over the year was slightly down on the previous year. The number includes people actively involved in work processes at DekaBank calculated as full-time equivalents.

The total number of employees fell to 4,035 (end of 2012: 4,040). 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, part-time staff, trainees and interns.

On average over the year, 82.9% (previous year: 84.0%) of the staff employed were in full-time posts. The average employee age was 44.9 years (previous year: 44.8 years).

Key activities in the year under review

Integration of staff acquired from LBB

A key area of HR activity involved preparations for the integration of staff from LBB's customer-oriented capital market business, which was taken over at the end of the year. These persons were transferred to different departments depending on their professional background. Support was also successfully provided for the integration of staff from LBB-INVEST into the Deka Group at the beginning of 2014.

The HR statistics as at 31 December do not include the 114 employees of LBB-INVEST who joined the Deka Group on 1 January 2014. In accordance with the provisions of Section 613a of the German Civil Code (*Bürgerliches Gesetzbuch*, BGB) (Transfer of business), the employees, and those of LBB's customer-oriented capital market business, were transferred to the Deka Group, along with all rights and obligations under their contracts of employment.

Changes at the Switzerland location

The Administrative Board of Deka(Swiss) Privatbank AG decided in December 2013 to close the Zurich location and discontinue its business activities. Consequently, a total of 22 permanent contracts of employment were terminated under termination agreements whereby employment will cease on 31 December 2014.

Ongoing development of the remuneration system

The Bank continued to develop the remuneration system in line with regulatory requirements, with particular emphasis on employees whose roles are relevant to the Bank's risk exposure. Information about the remuneration structure is provided on DekaBank's website and updated on a yearly basis. The remuneration report for 2013 is expected to be published in mid-2014.

Leadership initiative

The various approaches for establishing management principles (Common Understanding of Leadership and Management) adopted in the previous year were utilised intensively in the year under review. Three approaches are available, aimed at management teams and individual managers as well as at team leaders and employees. The main aims are to provide understandable and practical definitions of goals and responsibilities that are accepted by employees, to design efficient decision-making structures and processes, and create a climate characterised by trust and teamwork. By the end of the year, around 56% of managers and 25% of employees had taken part in activities in a workshop and/or one-to-one setting. Moreover, we have been able to obtain an up-to-date picture of the quality of the Bank's management, using two feedback tools – the employee survey and management feedback. The results of the survey are being analysed in the departments and at the individual level. This ensures that the management culture continues to develop further.

Recruitment and HR management

The Human Resources head office department supported the Deka Group's positioning as an attractive employer brand through a number of focused activities. As well as the Deka Group's Facebook page, these also include other social media activities (Xing, Kununu, LinkedIn). In addition, the Social Media Team holds internal information events and advises departments and savings banks on social media issues and on the development of social media activities.

The matching process started in the year under review should help to bring supply and demand together more effectively on the internal job market. To achieve this, the system compares applicants' profiles with the responsibilities involved in a particular position. Employees wishing to change and develop in specific ways can apply to the management adviser concerned. By giving individual advice as part of the talent management process, we offer more accurately tailored career development and allow targeted, cross-divisional placement of employees.

Promoting young talent

As well as investment fund sales professionals and commercial staff for office communications, DekaBank also trains students enrolled on the Applied Information Technology (BSc) dual study course in partnership with the Baden-Württemberg Cooperative State University. Nine trainees successfully completed their training in the Deka Group in 2013. Four students also graduated from the dual study course. In addition, DekaBank offers employees the opportunity to study for bachelor's degrees alongside their job and supports employees who are studying to gain a degree in investment management (*Investmentfachwirt*) at the Frankfurt School of Finance & Management. With more than 100 internships and around 20 traineeships, DekaBank offered valuable entry opportunities to new graduates in 2013. In the year under review, DekaBank's trainee programme received the "Absolventa Traineesiegel" award for a career-focused and fair trainee programme.

Lifecycle-based HR management

The proven, lifecycle-based HR concept adopted by DekaBank allows us to modify and, where appropriate, redevelop HR policies in line with the different phases of the employee's professional lifecycle. DekaBank's HR strategy is derived from the business strategy. It is evaluated on a regular basis and adapted where necessary to the market environment as well as to economic, social, political and legal trends. The goal is to work together, harnessing the passion and energy of Deka Group employees to shape the future.

Post balance sheet events

No major developments of particular significance occurred after the 2013 balance sheet date.

Forecast and opportunities report

The structure and content of the section containing the forecast and opportunities report correspond to the relevant section published in the Group management report of the Deka Group. Group and business division planning is geared to the Deka Group and the system of Group management by business division and hence encompasses all business divisions and legal entities. It therefore also includes DekaBank as a single entity. For this reason, no forecast and opportunities report has been prepared at individual Bank level.

Forecast report

Forward-looking statements

The Deka Group plans its future business development on the basis of the assumptions that seem most applicable from a current perspective. However, plans and statements about growth during 2014 are subject to uncertainties.

Actual trends in the international capital, money and property markets or in the Deka Group's business divisions may diverge markedly from our assumptions, which are partly based on expert estimates. The Deka Group's risk position is summarised in the risk report. If the risk scenarios referred to in the risk report should arise, for example as a result of stress situations or counterparty default, this could mean that targets are not met in 2014. Conversely, opportunities may result in expectations being exceeded. These are explained in the opportunities report starting on page 31.

Expected macroeconomic trends

Further progress is being made in tackling the eurozone sovereign debt crisis. Moderate growth of 1.0% is expected for the eurozone in 2014. Amongst other factors, pent-up demand in southern Europe is likely to boost growth. The recovery remains fragile, however. A sustained return to economic health requires continued reform efforts in France, Spain, Italy and elsewhere. Low inflation in 2013 has also fuelled concerns about deflation. Germany will remain an important stabilising factor for the eurozone in 2014, with an expected growth rate of 1.7%.

The USA continues to enjoy moderate growth, though the slow recovery of the labour market compared with previous phases remains a problem area. US GDP is expected to grow by 2.8% in 2014 and 2.9% in 2015.

Emerging markets continue to drive global economic growth. However, exports have been hit by sluggish growth in the industrialised countries and financing conditions are difficult. After an increase of 4.6% in 2013, growth in emerging markets will remain relatively modest in 2014 at 4.8%. In China, the days of double-digit growth are over. Following the Chinese economy's expansion by 7.7% in 2013, DekaBank's Macro Research unit forecasts that it will grow by 7.6% in 2014 and 7.4% in 2015.

Expected trends in the capital markets

Low inflation rates continue to provide central banks with scope to continue their expansionary monetary policy, although the USA has now begun a cautious withdrawal of its bond-buying programme. However, since the labour market is only recovering slowly, the Fed is likely to emphasise that any rise in interest rates remains a long way off. DekaBank does not expect key interest rates to start rising again until mid-2015.

On the bond markets, yield spreads are likely to widen slightly. DekaBank's research analysts anticipate only a very slow rise in yields on short-dated German government bonds, whereas yields at the long end are expected to rise more strongly. Corporate bonds may benefit from continued low interest rates and gradual improvement of economic growth.

In summary, the continued oversupply of the market with liquidity and the low level of interest rates and yields will present the Deka Group with challenging conditions in the 2014 financial year.

In view of continued low interest rates, private investors are again looking for more profitable investment opportunities, but nevertheless remain risk-averse. In DekaBank's opinion, the German equity market can look forward to another good year, supported by stable growth prospects for companies and a generally more positive investor attitude to equities. The DAX may well exceed the 10,000 mark in 2014. Whether private investors will derive greater benefit from this potential upside than they did in 2013 remains to be seen, however.

Outside Germany too, equity markets are likely to continue rallying in view of the lack of higher-yielding alternatives. Provided economies do not perform worse than expected, investors will focus on the strength of company profits, so that equity markets should return to their long-term growth trend. Stock markets in emerging countries have the potential to recover, but react strongly to US Fed policy. A tighter monetary policy could put renewed pressure on equity prices.

Expected trends in the property markets

Pressure on the office property rental market caused by the debt crisis will abate in 2014. Here too, the economic recovery is gradually making itself felt, though surplus vacancies persist in many places. However, due to the low volume of new construction since 2010, these are fairly moderate, so that vacancy rates should gradually decline over the course of the year.

Rental growth is expected to broaden in 2014. Initially the office markets in Germany, along with London and Vienna, should exhibit the highest growth. Particularly in the German office markets, economic growth has caused vacancies to fall substantially. Attractive premises have thus become scarcer, allowing landlords to argue for higher rentals. From 2015 onwards, southern European locations offer the best prospects for rental growth as the economic recovery takes hold there.

With interest rates remaining low in the eurozone, DekaBank's research analysts expect initial yields on office properties to fall in certain areas of Europe in 2014, particularly on German markets and in London and Scandinavian locations. Yields should rise again slightly from 2015 onwards.

Assuming the positive trend identified in key sectors continues, in early 2014 levels of employment among office workers in the USA should exceed the highest level reached prior to the crisis. This provides growth momentum for the office market, particularly in terms of demand for office premises. According to DekaBank's estimates, rental growth will be highest in technology and energy centres such as San Francisco, Seattle and Dallas.

The volume of new construction in Asia has increased significantly. Rentals are therefore expected to increase by only a moderate amount. Only in Tokyo is rising demand in the office market expected to lead to further rental growth. In Australia, the volume of new construction is declining again across the country. Therefore, consolidation is to be expected on the supply side, with largely stagnating rentals.

Expected business development and profit performance

The Deka Group will continue to press ahead with its transformation into a fully-fledged securities service provider during 2014. The initiatives launched at the start of the programme are being pursued on a targeted basis and according to plan. Priority areas include significant expansion of savings bank sales to support investment and advisory processes across the board, solution-driven development and streamlining of the actively marketed product range, and expansion of institutional business under the Deka Institutionell brand. The activities taken over from LBB at the end of 2013 support the transformation into a fully-fledged securities service provider, strengthen the asset management business and complement the Deka Group's capital market activities. The integration process started on schedule and should be completed by 2016.

Overall, the Deka Group expects economic trends to remain stable in 2014.

We expect the economic result in 2014 to be close to the level achieved in 2013.

From an operational perspective, the activities taken over from LBB at the end of 2013 are expected to make a positive contribution to the Deka Group's economic result in 2014. This will be offset by necessary integration costs, which may have a negative net effect on earnings. Following successful integration of the LBB activities into the Deka Group, we expect both LBB-INVEST and our customer-oriented capital market business to make positive contributions to earnings.

Supported by ongoing sales-oriented and product-related measures, the asset management business is expected to continue to grow and net sales of funds and certificates should increase significantly. In securities-based asset management, the Group plans to improve retail sales and sales performance in relation to institutional customers. In the current market climate, tailor-made solutions and alternative asset classes will become more important, while the sales situation for bond and money market funds remains difficult in view of the prevailing low interest rates. Net funds inflow for retail certificates should exceed the comparative figure for 2013 in an overall market that is likely to shrink.

In view of the aim to increase net sales performance, a moderate expansion of assets under management is planned at Deka Group level. This assumes that exchange rate movements do not impact negatively on fund volume.

Based on the intention to keep sales quotas at roughly the same level as last year, the Real Estate business division should achieve a stable performance and consolidate its prominent market position. This assumes that the introduction of the German Investment Code (*Kapitalanlagegesetzbuch* – KAGB) will not have any significant lasting negative impact. In property finance, the division will continue its tried and tested business strategy. In view of strong price competition, margins in new business are likely to remain under pressure.

In its financing operations, the Deka Group continues to focus on selected, strategic core segments. As a minimum, the business division will maintain its role as a leading financier for savings banks.

At the beginning of 2014 the Capital Markets business division completed the operational integration of LBB's customer-oriented capital market business. This supports the Deka Group's position as fully-fledged securities service provider for the *Sparkassen-Finanzgruppe*. Since interest rates are expected to remain low, a slight decline in customer activity is expected, particularly for short-term products.

In non-core business, the focus remains unchanged on reducing the portfolio while safeguarding assets.

Expected financial and risk position

The Deka Group expects no significant changes to its financial position over the forecast period compared with the situation as at year-end 2013. In our planning, we expect total assets to remain virtually stable. The core tier 1 capital ratio is expected to come under pressure due to new regulatory requirements. Foremost among these is the requirement to convert the calculation methodology to the terms of Basel III which, amongst other things, stipulates even more conservative valuation of all positions reported at fair value. Furthermore, the LBB transaction results in a higher capital adequacy requirement. The core tier 1 capital ratio will therefore drop below the target ratio of 12%, even if profits are reinvested according to plan.

Even taking into account the capital effects arising from the LBB transaction, the utilisation rate of overall risk-bearing capacity is expected to remain at a non-critical level. Although the markets are currently stable, there is a possibility that they may become more volatile in future. In view of this, and given that we expect to build up positions following the LBB transaction, we nonetheless anticipate that there could be some circumstances under which the utilisation rate might increase appreciably. This is already factored into our strategy.

The Deka Group's liquidity position will remain adequate in the 2014 financial year.

Ahead of the requirement to disclose the leverage ratio from 2015 onwards, the Deka Group will manage its capital and balance sheet structure so as to adhere to the minimum value, which is still under discussion, earlier than required.

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 the 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 our 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 transformation programme to become a fully-fledged securities service provider. The associated positive effects may be greater or occur sooner than anticipated in the forecast report.

- Performance opportunities are based primarily on process improvements, as well as on strict cost management. These are likewise to be seen in the context of the transformation to become a fully-fledged securities service provider.

Current opportunities

The macroeconomic environment may prove more benign than is assumed in the basic scenario. For example, low interest rates and increased confidence may lead to a rapid, strong recovery in Europe and the USA. Growth in China might also be stronger than expected. However, we consider the likelihood of such a positive scenario, which would improve conditions particularly in securities-based asset management and capital market business, to be very low.

The money and capital market environment could also develop more advantageously than assumed in the forecast report. For example, a rise in interest rates could mean higher margins on liquid investments. A stronger than expected rise in bond yields has an impact on valuations in the short term, but allows higher yields to be achieved on reinvestment. However, DekaBank's research analysts do not anticipate any radical change in the market situation compared with 2013.

Finally, market-related opportunities may arise from changes in investor behaviour. The Deka Group expects private investors to remain reluctant to favour securities in their investment decisions. If lower interest rates on deposits were to lead to an increase in the popularity of funds and certificates, this would have a beneficial impact on net sales performance and assets under management.

Strategic and performance opportunities arise in connection with realisation of the transformation programme. The resulting effects are already part of the forecasts for 2014. They will only have a positive impact on the Deka Group's business and profit situation if realisation is accomplished more quickly or if the effects are greater than expected.

Risk report

The structure and content of the following risk report correspond to the risk report published in the Group management report of the Deka Group. Risk management and risk control are geared to the Deka Group and thus encompass all business divisions and legal entities, including DekaBank as a single entity. As a result, no risk report has been prepared at individual Bank level.

Risk policy and strategy

To achieve its objectives, Deka Group consciously incurs risk in line with strategic requirements in order to generate sustainable added value for the savings banks. The Deka Group utilises the advantages arising from the interconnection of its activities in the areas of investment funds and real estate, and its lending and capital market business, to successfully implement its vision of providing the full range of services in connection with securities. This involves not only counterparty, market price and operational risks, but also business and reputational risks in particular, 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 business success of the Deka Group.

The upper limit for risks that have an impact on the income statement is determined in principle by the Group's total risk-bearing capacity. 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, German savings banks and their customers, and on central counterparties, which is partly due to its function as a liquidity platform. As well as managing risks that have an impact on the income statement, ensuring the solvency of the Deka Group at all times is a significant focus of attention for risk management activities.

The Deka Group's focus remains on business that is in demand by both the savings banks and their end customers, which generates added value for the Deka Group, whose 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 strategies consistent with it, risks positions are entered into primarily in connection with customer transactions and if 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.

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 review considers 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 risk strategies developed for all material types of risk are derived from the Deka Group's corporate strategy and the strategies for 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 and discussed with the Administrative Board. In the course of this process, DekaBank takes into account both external as well as internal factors, the underlying assumptions of which are reviewed regularly and as necessary.

The objectives of the business and risk strategies are quantified annually during the medium-term business planning process. Profit, capital and risk are planned on an integrated basis for the next three budget years, also taking into account adverse developments.

The Group performs a risk inventory on an annual basis and, at other times as required, to determine which risks could have a significant negative impact on assets, including capital resources, profits 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, Deka Bank has established limits (risk tolerances) for all significant risks and has implemented rigorous risk management.

Organisation of risk management and control

Board of Management and Administrative Board

Risk management involves the active management of the Deka Group's risk position (Fig. 11). The full Board of Management plays a crucial role in this regard. It is responsible for establishing, enhancing and monitoring the effectiveness of the risk management system. Within the risk management organisation the full Board of Management makes decisions on the Deka Group's strategy and defines the amount of overall risk permitted at the Group level. It also allocates capital to the respective types of risk and the business divisions, including Treasury and non-core business. In particular, it also decides the limits for the individual risk types at the Group level.

The Administrative Board, together the relevant committees it has established – the Audit and Risk Committee as well as the Credit Committee – is responsible for monitoring the risk management system of the Deka Group. Prior to every meeting of the Administrative Board, the Audit and Risk Committee meets to discuss in detail the matters impacting profit, the financial position and the revenue of the Group, the risk situation and the risk management system. In addition, it reviews the Group's strategy with the Board of Management. During these meetings, Internal Audit reports to the Committee on the results of its audits. In advance of the Board of Administration meeting, the Credit Committee discusses counterparty-specific matters regarding the structure and development of the loan portfolio. It acts as the committee for approving loans and discusses the business strategy for the Deka Group's lending business with the Board of Management.

Organisational structure of risk management in the DekaBank Group *(Fig. 11)*

		Market price risk	Liquidity risk	Counterparty risk	Operational risk	Business risk	Property risk/ property fund risk	Shareholding risk
Administrative Board (or Audit- and Risk Committee)	- Overview of current risk situation/risk management system - Discussion of strategic direction with Board of Management	●	●	●	●	●	●	●
Administrative Board (or Credit Committee)	- Loan approval committee - Discussion of the business direction in lending business with Board of Management			●				
Board of Management	- Determines strategic direction - Responsible for Group-wide risk management system - Sets return on equity target and allocation of risk capital to risk types and business divisions - Sets overall limit and approves limits within risk types	●	●	●	●	●	●	●
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	●	●	●	●	●	●	●
Management Committee Risk (Managementkomitee Risiko – 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	●	●	●	●	●	●	●
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				●			
Financing business division	- Conducts transactions in line with strategic guidelines		●	●		●		●
	- Identifies, measures and manages operational risks on a decentralised basis				●			
Treasury (Corporate Centre)	- Conducts transactions in line with strategic guidelines	●	●	●		●		
	- Makes decisions within the guidelines proposed by the MKAP and established by the Board of Management and sets limits within the Corporate Centre - Manages market price risks in the banking book, manages the liquidity and refinancing of the Deka Group	●	●					
	- Identifies, measures and manages operational risks on a decentralised basis				●			

		Market price risk	Liquidity risk	Counterparty risk	Operational risk	Business risk	Property risk/ property fund risk	Shareholding risk
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	●	●	●	●	●	●	●
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	●	●	●	●	●	●	●
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				●			
Country Risk Committee	- Assesses country risks			●				
Monitoring Committee	- Monitors and manages exposure at risk of default			●				
Rating Committee	- Enhances and maintains internal rating procedures			●				
Shareholdings (Corporate Centre Corporate Development)	- Manages equity investment portfolio							●
	- Identifies, measures and manages operational risks on a decentralised basis				●			
Compliance (Corporate Centre)	- Works towards the implementation of effective procedures to comply with legal regulations and requirements as well as appropriate controls - Monitors compliance with rules of conduct under capital market law and consumer protection in securities business				●			
Corporate 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				●			
Audit (Corporate Centre)	- Audits and evaluates all activities/processes (especially risk management system)	●	●	●	●	●	●	●

Management committees, business divisions and corporate centres

The Board of Management is supported in its management role by various management committees. In this context the MKAP drafts resolutions on matters relating to the management of interest rates, currency, liquidity and refinancing, as well as regarding the capital and balance sheet structure. In addition, it plays a role in limiting market price risk by deciding the overriding limit allocation for the Capital Markets business division and the Treasury Corporate Centre. The members of the MKAP include the departmental heads for Treasury, Risk Control and Finance as well as the head of the Capital Markets business division and the heads of the Treasury, Risk Control and Finance Corporate Centres. In addition, the heads of the Macro Research and Corporate Development departments participate in the bi-weekly meetings as permanent, non-voting guests.

The Management Committee Risk (*Managementkomitee Risiko* – MKR), which was set up during the reporting year and meets once a month, advises the Board of Management on matters regarding significant risks at the Group level and in the assessment of issues that have a significant influence on the total risk profile of the Group. Its voting members include the heads of the Risk Controlling, Credit Risk Office, Compliance, and Legal Corporate Centres and the heads of the risk functions of the asset management companies.

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

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

The Credit Risk Office Corporate Centre is responsible for providing a second opinion independent of front office operations, for reviewing and approving ratings, and for reviewing and approving certain collateral. In addition, the Credit Risk Office monitors the management process concerning non-performing and troubled loans, and acts as the central administrative office for early risk identification.

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

The Compliance Corporate Centre, which was separated from the Legal Affairs Corporate Centre in 2013, is the unit where the compliance function in accordance with MaRisk resides. This unit is responsible for working to implement appropriate and effective procedures and controls to ensure compliance with legal regulations and requirements. In doing so, the Compliance Corporate Centre has an integrated compliance responsibility that covers the functions pursuant to Article 4.4.2 of MaRisk/Section 25a of the German Banking Act (*Kreditwesengesetz* – KWG), Section 33 of the German Securities Trading Act/Minimum Requirements for Compliance (*Wertpapierhandelsgesetz* – WpHG/*Mindestanforderungen Complianc*e – MaComp), the Risk Management Requirements for Investment Companies (*Risikomanagement für Investmentgesellschaften* – InvMaRisk) and the German Money Laundering Act (*Geldwäschegesetz* – GwG)/Section 25h of the KWG (page 59).

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

Committees

The Stress Testing Committee, which meets quarterly, is responsible for determining the macroeconomic stress testing scenarios and processes, and evaluating the results of the stress tests. It supports the Board of Management with the overall assessment of the risk situation. Regular members of the committee include the heads of the Risk Controlling, Finance, Corporate Office & Communications, and Corporate Development Corporate Centres, as well as the heads of the units COO Markets, COO Asset Management Securities, COO Asset Management Real Estate, Overall Bank Risk & Reporting, and Macro Research.

Additional committees that are relevant to counterparty risk management include the Country Risk Committee to assess country risk, the Monitoring Committee to monitor and manage exposures at risk of default, and the Rating Committee, which monitors the development of internal rating procedures (see counterparty risk on page 48).

Reporting

The risk management and risk control system is also the foundation for objective and comprehensive risk reporting: all information required for risk monitoring is provided to the responsible departments in a timely manner. In this way, both the Board of Management and the MKAP are informed on a monthly basis about the current utilisation of risk-bearing capacity and the capital allocation of the individual business divisions and the Group. Furthermore, the Board of Management and the Administrative Board receive a comprehensive quarterly risk report pursuant to the requirements of MaRisk. The risk report provides a comprehensive overview of both risk-bearing capacity and the development of each individual risk type. The Board of Management also receives summary reports containing the key points on the current risk situation. Depending on the type of risk, these reports may be submitted on a daily basis, but in any event are presented to the Board of Management at least once a month. Reports on key financial indicators submitted to the Board of Management constitute the central and overall monthly reporting to the full Board of Management required by MaRisk (for further details on the reporting, see the sections on the respective risk types).

Implementation of new regulatory provisions and further developments in risk management

The fourth MaRisk amendment came into force at the start of 2013. DekaBank had already implemented most of the new requirements ahead of schedule. Compliance with these provisions was mandatory effective 31 December 2013. In terms of implementing individual requirements for which there is a longer implementation period, such as the requirement for a liquidity transfer pricing system, DekaBank has likewise largely already concluded these initiatives; only a few individual activities will continue to be worked on in 2014. For further information on the implementation of the requirements for the compliance function, see page 59.

The Deka Group had already implemented the expanded requirements stipulated in the fourth amendment of MaRisk in terms of risk-bearing capacity concepts of banks in late 2012/early 2013. According to these requirements, alternative perspectives must be taken into account, besides the primary management approach, by adjusting and supplementing the risk-bearing capacity concepts. With regard to capital management, the liquidation perspective (gone concern) remains the leading approach in this context, but it has been supplemented by a complementary approach based on the continuation perspective (going concern) (page 41).

In connection with the maturity of subordinated capital components, during the reporting period DekaBank also modified some aspects of its system of presenting risk cover potential. The definition of total risk-bearing capacity remains unchanged. However, the definitions of primary and secondary risk cover potential have been revised. The previous classification based on the capital source has been abandoned in favour of a classification by capital purpose (page 40). The secondary risk cover potential is therefore now defined as a fixed amount which acts as a buffer for potential stress situations, as it has done in the past, but since the start of the year has also been available for market price and counterparty risks arising in connection with pension commitments. This secondary risk cover potential is fundamentally not available for capital allocation purposes. As before, the basis for capital allocation remains the so-called primary risk cover potential, which results from the difference between total risk-bearing capacity and the aforementioned capital buffers that represent the secondary risk cover potential.

The system for conducting stress tests across risk types was continued and updated in the reporting period. The scenarios were reviewed and their parameters were adjusted to the current market situation. In its analysis of risk-bearing capacity, DekaBank currently continues to review nine stress scenarios covering the major scenarios for the Bank and its portfolio over a two-year period. These are also supplemented with corresponding reverse and ad-hoc scenarios as needed. Furthermore, the stress tests were also used when designing the requirements as per the Minimum Requirements for Recovery Plans (*Mindestanforderungen an Sanierungspläne* – MaSan).

In addition to these points, the Deka Group also launched an initiative during the reporting year to enhance its internal models for determining the (partial) capital charges for market risk positions. The initiative is aimed at achieving regulatory recognition in future.

Furthermore, as part of the enhancement of its risk management approach, the Group's assessment of risk was significantly strengthened with regard to "soft" types of risk such as business and reputational risks. As part of this process, a cross-functional body was established, the MKR, in which the corresponding matters are discussed so that they can be addressed at an early stage. There were two enhancements as far as market price risks are concerned. First, issuer-specific curves were utilised for the first time in the assessment of credit spread risk. Second, the regular assessment was supplemented with explicit items on market price risks from guarantee products, which have become more important overall. In connection with this, the risk capital allocated to the Securities business division was increased moderately. As far as counterparty risk is concerned, the inclusion of correlation effects in the credit portfolio model was developed further, specifically with regard to the method for representing possible parallel credit events in stress situations (crisis correlations).

Overall risk position of DekaBank

Risk types and definitions

The individual types of risk are derived from the annual risk inventory for risk management purposes. The primary risks include market price risk, counterparty risk, operational risk, liquidity risk, business risk and, in terms of a cross-sectional view, reputational risk

Market price risk

Market price risk describes the potential financial loss from future market fluctuations and hence include 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. In addition, premiums for individual issues (residual risks) are also relevant.

Share price risks are identified as risk factors via the individual shares or indices and are influenced by risks from share or index volatility.

Currency risks are affected by corresponding changes in exchange rates and the associated volatility.

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 rather is due to its location abroad.

In principle, the Deka Group makes a distinction in counterparty risk between position risk and advance performance risk. Position risk comprises borrower and issuer risk, as well as replacement risk and open positions. Borrower risk is the danger that outstanding payment obligations to the Deka Group are not paid or 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 defaults, a replacement transaction would have to be conducted at less favourable market conditions. Open position risk results if a delay occurs when a business partner performs a contractually agreed obligation (performance disruption). 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.

Operational Risk

Operational risk (OR) describes potential losses resulting from the use of inappropriate internal processes and systems or their failure, as well as from human error and external events.

Operational risk also include legal risks if the losses caused by unexpected changes to the legal framework, the courts' interpretation of law or the unenforceability of the Deka Group's position are due to internal errors by the Group or a failure to implement appropriate changes. Other components of operational risk include personnel risk, dependency on outsourced processes (outsourcing risk) and aspects of model risk. As secondary risks, reputational risks 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.

Liquidity risk

Liquidity risk is the danger of insolvency and the risks resulting from imbalances in the maturity structure of assets and liabilities. 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 market disruptions.

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 to be material if they have an unexpected negative impact on profit as a result of volume and margin changes and are not attributable to any of the risks described above.

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 view 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, or a lower enterprise value. In view of this, reputational risks are not seen as a separate type of risk, but rather as a secondary or follow-on risk of the other risk types.

Further types of risk

Risk analysis has identified other types of risk that currently 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.

Liquidity shortage risk is considered within the context of analysis carried out to supplement considerations of risk-bearing capacity. It describes the hypothetical risk that in the event of an unexpectedly strong redemption of fund units, open-ended Deka property funds will not be able to satisfy the redemptions with their own liquidity. Liquidity shortage risk is currently not a significant risk for the Deka Group.

Risk concentration

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 and which can 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 material types of risk (inter-risk concentrations) and are a focus of risk management and monitoring both in terms of tools looking at specific types of risk and those that apply across risk types

Business-division-specific risk profiles

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

Securities business division

The focus in this business division on the active management of securities funds and fund-linked asset management creates operational risks in particular, as well as business risks for the Deka Group. These risks can be exacerbated by reputational risks associated with the "Deka" brand. In addition, managed guarantee products create counterparty and market price risks for the Deka Group.

Real Estate business division

As with the Securities business division, active fund management creates operational and business risks in this business division. In addition, real estate lending leads to counterparty risk, although this lending usually involves individual loans with a different regional focus.

Capital Markets business division

The customer-based business of the Deka Group with the savings banks and additional selected counterparties and business partners leads primarily to counterparty and market price risks. In its capacity as the central securities and collateral platform in the association, DekaBank supports Deka funds and the savings banks by providing and managing liquidity (liquidity platform). This leads to concentrations with individual business partners and counterparties. However, these concentrations are generally offset by corresponding collateral in the form of monetary deposits or diversified securities portfolios. At the same time, the temporary investment of the business division's liquidity creates market price risks, particularly credit spread risks.

Financing business division

The business activities of the Financing business division in the risk segments it focuses on create corresponding focal points and regional risk concentrations, primarily in counterparty risks.

Treasury

Treasury's role as the central resource manager and the long-term provider of liquidity for the Deka Group results in counterparty risk, particularly with regard 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.

Overall concepts of risk measurement

The Deka Group essentially uses three tools for the overall management of the risks that result as part of the strategic requirements of the Group's business activities. These tools are supplemented with specific individual tools for operational management of individual types of risk. These individual tools are described in the respective sections on 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. It 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. The risk inventory 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 the preparation of the results. In addition, significant risk issues for the Deka Group are discussed each month in the MKR.

Risk and capital planning

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

Risk-bearing capacity and capital allocation

In principle, risk-bearing capacity is used to determine the maximum level of risk that can be incurred (impacting the income statement), taking into account risk concentrations.

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 extremely rare risk situations are also included in the analysis.

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

In order to quantify the individual risks in a standardised manner and to be able to aggregate the total risk into one key figure, DekaBank uses the Value-at-Risk (VaR) approach. 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 target rating and the Deka Group's business model.

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 components of capital that do not negatively impact creditors in the event of a hypothetical liquidation. In the liquidation approach the total risk cover potential, i.e. the total risk-bearing capacity, consists primarily of equity capital in accordance with IFRS, profit, and items with a hybrid capital nature (subordinated capital), adjusted using amounts to correct for certain capital components. This risk cover potential is available in the sense of a formal total risk limit – to safeguard risk-bearing capacity.

Based on this outcome, explicit capital buffers are defined, for example for stress scenarios, the sum of which is referred to as the secondary risk cover potential. The primary risk cover potential – the primary management metric for the allocation of risk capital – represents total risk-bearing capacity minus secondary risk-bearing capacity.

The utilisation ratios for total risk-bearing capacity, the primary risk cover potential and the allocated risk capital may not exceed 100%. A warning threshold of 90% has been established for the utilisation of primary risk cover potential.

In addition, the Deka Group regularly determines its risk-bearing capacity based on the going concern approach as a supplemental procedure to assess risk-bearing capacity. Here the primary focus is on to what extent and how often (time horizon) the Deka Group can incur risks without endangering its ongoing existence, while simultaneously complying with the corresponding regulatory capital requirements. This means that 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 core tier 1 capital ratio of 10.5% as a warning threshold and a core tier 1 capital ratio of 9.0% as a threshold value. 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% and a holding period of one year, which corresponds to a time horizon of once in twenty years.

The results of the risk-bearing capacity analysis of 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 full Board of Management. The Audit and Risk Committee, and the Administrative Board are informed on a quarterly basis.

Stress tests and scenario analyses

Stress tests and scenario analyses are performed based on the liquidation approach across all types of risk for all key market parameters in order to assess the impact of extreme market developments on total risk-bearing capacity. These tests help identify areas for action at an early stage as soon as crisis situations start to appear.

Extraordinary but plausible scenarios are examined, covering both historical scenarios (such as the crisis on the financial markets) and hypothetical stress situations – such as the default of important individual counterparties. Furthermore, the Deka Group also performs reverse stress tests, in which specific manifestations of scenarios are examined in the Deka Group's specific business model, taking into account the associated risk concentrations, which would lead to the risk-bearing capacity limit being reached. Reputational risks are also systematically included in the stress tests.

When needed, the scenarios are supplemented with ad-hoc analyses. The effects of these stress scenarios 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 across all risk types are determined quarterly, assessed by the Stress Testing Committee and reported to the full Board of Management, the Audit and Risk Committee, as well as the Administrative Board.

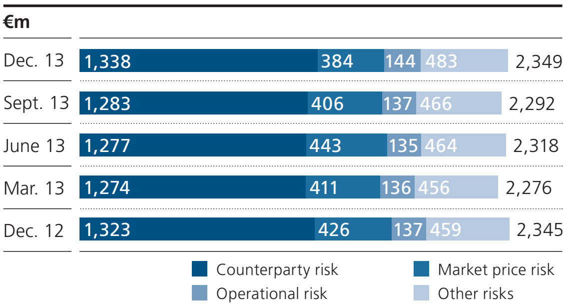
The annual review of the stress scenarios as prescribed by regulators has shown that the existing scenarios continue to be useful and appropriate. The scenario parameters were updated to take into account the current market environment.

Overall risk position in financial year 2013

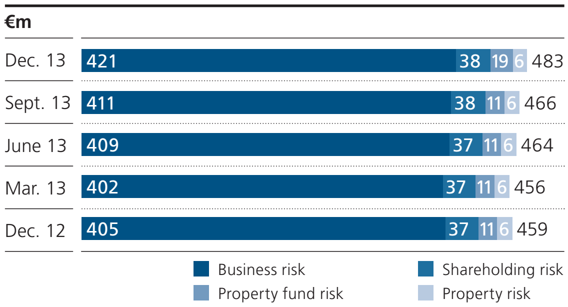
The overall stable trends in financial and capital markets during 2013 are reflected in the total risk position of the Deka Group, which has remained largely unchanged compared to the prior year.

As at the end of 2013, the total risk of the Deka Group as calculated using the management-relevant liquidation approach (VaR, confidence level 99.9%, holding period one year) totalled €2,349m (end of 2012: €2,345m); (Fig. 12 and 13). Lower market price risk was largely offset by slightly higher counterparty and business risk. Due to the stable trend in markets and positions, the primary causes of these changes in risk are methodological enhancements. The decline in market price risk is mostly due to lower credit spread risks – in part due to improved risk identification in the bond portfolio. The increased risk caused by the explicit inclusion of market price risks from guarantee products was more than offset. The slight increase in counterparty risk was predominantly due to the enhancement of the portfolio model to identify "crisis correlations". Business risk increased somewhat, partly as a result of higher net commissions used to determine risk. The other risk types incorporated into the risk-bearing capacity analysis have a VaR that has changed only marginally.

Change in Group risk over the course of the year *(Fig. 12)*



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



The risk attributable to the core business increased slightly to €2,075m (end of 2012: €2,040m). In non-core business the further reduction in positions together with lower credit spread risks led to a decline to €333m (end of 2012: €404m).

The utilisation of total risk-bearing capacity, at 47.8% (end of 2012: 45.8%), remained at an non-critical level. Total risk-bearing capacity declined by €205m to €4,913m compared with the end of 2012 (€5,118m). The increase in profit and reserves from retained earnings due to reinvestment from the 2012 annual profit was more than offset, primarily by the early inclusion of capital effects associated with the LBB integration and the lower total volume of subordinated liabilities available for offsetting. The background behind the decline is that only subordinated liabilities with a residual term of more than one year are incorporated into risk-bearing capacity, meaning capital instruments that mature in 2014 are no longer taken into account. The capital buffer for potential market and counterparty risks from pension obligations, which was explicitly taken into account in secondary risk cover potential in the reporting period for the first time, was €85m as at the reporting date.

After deducting the secondary risk cover potential, primary risk cover potential of €3,628m was available (end of 2012: €3,849m), which was 64.7% utilised (end of 2012: 60.9%).

Total risk-bearing capacity was likewise ensured over the entire reporting period in all macroeconomic stress scenarios that were investigated. The forecasted utilisation of total risk-bearing capacity as at the end of 2014 was roughly 90% in two scenarios and below 80% in the remaining scenarios as at the 2013 reporting date.

In the going concern approach that was additionally analysed, risk-bearing capacity was likewise assured at all times. Here, utilisation of free risk cover potential – taking into account a core tier 1 capital ratio of 10.5% – decreased during the year from 45.4% to 39.2% (confidence level 95%) and therefore remained at a non-critical level overall.

Market price risks

Strategic framework and responsibilities

The Deka Group's market price risk strategy, based on the Group's business strategy, stipulates the 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 the 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 full Board of Management decides the market price risk limits for the Group as a whole, and for the Treasury Corporate Centre and the Capital Markets and Securities divisions. The allocation of limits is based on both the organisational structure and the distinction between the trading and the banking book. Co-ordinating with the head of Risk Control, the respective division head is responsible for defining the underlying limits or to reallocate them between existing limits.

The MKAP makes recommendations on the definitions of the framework for the management of strategic market-price-risk positions to the full Board of Management, which then adopts the corresponding resolutions. 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 limits

Focus, structure and degree of risk associated with business activities

The Deka Group has a conservative business model as far as market price risk is concerned. This means that business is mostly conducted in interest-related products and equities. For this purpose, the Group mainly uses established products and markets with adequate market liquidity and market depth due to their international acceptance. Business involving physical delivery of previous metals and goods is not conducted. Open risk positions are entered into only within the allocated market price limits.

As part of the Group's function as a liquidity platform, the Capital Markets business division enters into open positions in a predefined amount in particularly liquid securities with high credit ratings. 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 hedged with hedging instruments. For further information on the accounting treatment of hedging transactions in accordance with IAS 39 (Hedge Accounting), please refer to note [9]. The requirements for the 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.

When investing liquidity for the short term, the Group predominantly enters into positions in highly-liquid, ECB-eligible securities with short residual terms and investment-grade ratings.

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 securities with a focus on interest rates 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.

In Treasury, the focus of liquidity investment is currently 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, which serve as the Bank's liquidity reserve. These investments primarily result in credit spread risks, which are closely monitored and reduced, when needed, through sales or via credit derivatives. The interest rate and currency risks that result from asset-liability management are managed using derivative instruments, whereas the market price risks arising from refinancing and equity-capital management are countered using internal transactions where possible.

In non-core business, market price risk consists almost exclusively of credit spread risk. This risk is managed as part of the initiative to reduce the portfolio while preserving assets.

The investment companies in the Deka Group are generally not subject to any market price risks beyond those associated with the investment funds. However, market price risks can result if an investment company provides products 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. If the loss in the accumulated net income for the year exceeds the stop-loss limit, the open positions of the corresponding portfolio are immediately closed.

Value at risk

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

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

Sensitivity-based management metrics

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 are volatilities and correlations that have been determined historically, based on 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.

The input parameters for this risk model are the sensitivity metrics delta, gamma and vega (the Greeks). 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 in addition to the limits. Stress tests based on specific risk types are also carried out and the outcomes reported on a daily basis to support the risk measurement process using the VaR procedure.

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.

The risk factors incorporated into the analysis take into account the specific business model. The analysis gives appropriate consideration to issuer-specific curves for credit spread risk – introduced for the first time in the reporting year – sector curves for various country/sector/rating combinations, credit spread curves for credit derivatives, reference curves for different fixed-interest periods, as well as implied interest rate and equity volatility, and basis risks.

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 segmented or name-specific credit spread curves.

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 on an integrated basis 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.

Scenario analyses and stress tests

The limit system is supplemented with regular market-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. Here, too, the focus is on risks that are particularly relevant, especially credit spread risk, using separate, portfolio-specific analyses.

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 addressed in this analysis by performing a detailed review of credit spread trends, particularly in the financial industry and among domestic public issuers.

Backtesting of VaR risk ratios and validation

Backtesting is regularly conducted for various portfolio levels in order to test the quality of the VaR forecast. 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 forecasted value-at-risk figures for the previous day. The backtesting findings are also used to enhance the risk model. The results are reported on a quarterly basis. The backtesting results confirm the general suitability of the market risk measurement at both the bank level and at the level of subordinate organisational units.

Reporting

Market Risk Control monitors all risk limits and informs the Board of Management, the head of the Capital Markets business division and the heads of the Treasury, Risk Control and Finance Corporate Centres on a daily basis about market risk positions in the trading and banking books and about the trading results as at the close of business. A report is submitted to the MKAP every two weeks and to the full Board of Management on a monthly basis. Limit overruns are immediately reported to the full Board of Management. The Administrative Board is informed on a quarterly basis.

Current risk situation

The decline in market risk in the analysis of risk-bearing capacity is primarily a result of the calm market environment, and also of improvements in th e presentation of risks within the bond portfolio via the introduction of issuer-specific credit spread curves, which was particularly beneficial to Treasury. The positive trend in prices for guarantee products on the capital markets also helped to reduce risk.

At the end of 2013, total utilisation of the operating management limit for Treasury and the Capital Markets business division was moderate, at 53%. With a holding period of ten days and a confidence level of 95%, the VaR for Treasury, the Capital Markets business division and non-core business amounted to €39.1m, compared with €45.3m at the 2012 reporting date (Fig. 14).

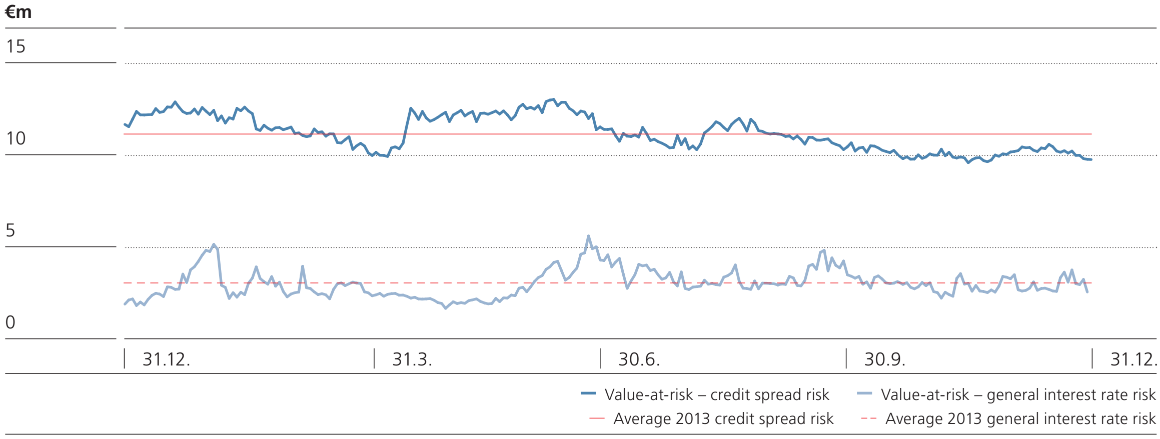
Value-at-risk for Treasury, Capital Markets business division and non-core business [1)]
(Confidence level 95%, holding period 10 days) *(Fig. 14)*

€m			31.12.2013			31.12.2012	
Category	**Treasury and Capital Markets business division**	**Non-core business**	**Treasury, Capital Markets business division and non-core business**	**Treasury and Capital Markets business division**	**Non-core business**	**Treasury, Capital Markets business division and non-core business**	**Change in risk**
Interest rate risk	36.9	8.5	39.2	41.8	13.3	44.5	–11.9 %
Interest rate – general	5.9	1.9	4.8	2.7	1.5	2.7	77.8 %
Spread	36.7	8.1	38.9	41.5	13.2	44.4	–12.4 %
Share price risk	2.7		2.7	3.1		3.1	–12.9 %
Currency risk	0.5	0.6	0.4	1.7	1.3	0.6	–33.3 %
Total risk	**36.9**	**8.5**	**39.1**	**42.3**	**13.5**	**45.3**	–13.7 %

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

Credit spread risk decreased compared with the position a year ago from €44.4m in 2012 to €38.9m. Improvements in the identification of diversification in the bond portfolio through the introduction of issuer-specific credit spread curves helped to reduce risk, as did declining spread volatilities and lower credit spreads. This more than compensated for the risk-increasing effect caused by the expansion of bond positions in the Treasury banking book. The VaR in the Treasury banking book was €28.0m, compared with €30.7m in the prior year. Credit spread risk in the Capital Markets trading book totalled €9.7m (2012: €11.7m); (Fig. 15).

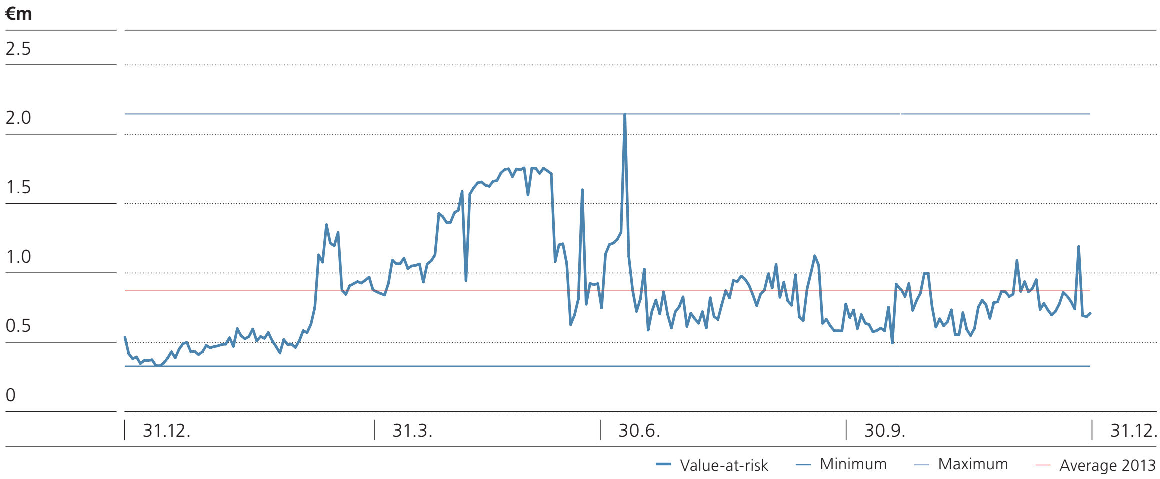
Value-at-risk – General interest rate risk and credit spread risk in the Capital Markets trading book over the course of the year 2013 *(Abb. 15)*



At the end of 2013 general interest rate risk amounted to €4.8m and is therefore higher year-on-year (€2.7m). Higher interest rate volatility in the bond markets was a major factor in this change. However, compared with the balance at the middle of the year, which was temporarily impacted by higher bond yields, general interest rate risk declined again in the second half of the year. There was a particularly strong decline in the level of interest rates in medium and long-term maturities. General interest rate risk in the Capital Markets trading book stood at €2.5m (2012: €1.8m).

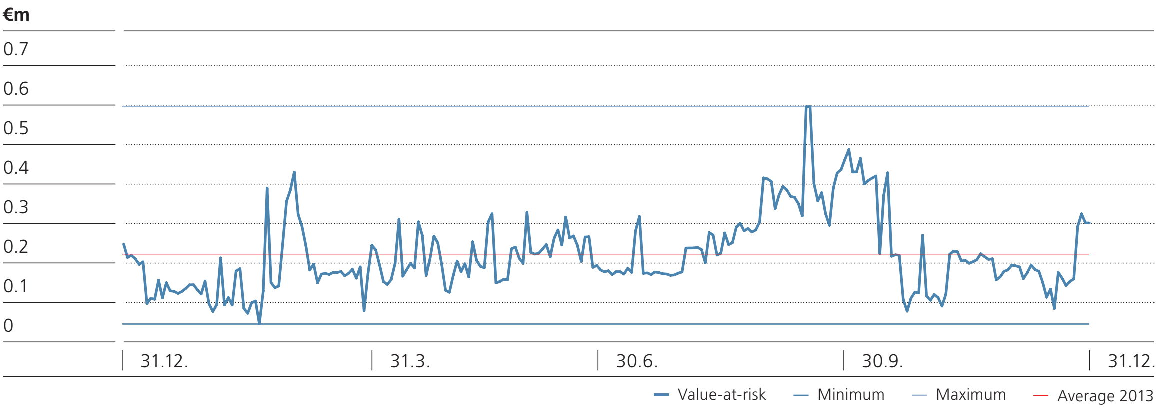
At €2.7m, share price risk at the end of 2013 was immaterial, in line with the position at year-end 2012 (€3.1m). The risk positions built up in the Treasury banking book during the first half of the year were reduced again in the third and fourth quarters. Share price risk in the Capital Markets trading book totalled €0.7m (2012: €0.4m); (Fig. 16).

Value-at-risk – Share price risk in the Capital Markets trading book over the course of the year 2013 *(Fig. 16)*



Currency risk, which results primarily from British pounds, US dollars and Japanese yen, stood at just €0.4m and therefore remained immaterial. At the end of 2013, currency risks in the Capital Markets trading book totalled €0.3m (end of 2012: €0.2m); (Fig. 17).

Value-at-risk – Currency risk in the Capital Markets trading book over the course of the year 2013 *(Fig. 17)*



Counterparty risks

Strategic framework and responsibilities

The credit risk strategy stipulates the parameters for all Deka Group transactions that involve counterparty risk. It serves in particular as the foundation for the Group's counterparty risk principles for loans as defined by Section 19(1) of the 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 to define the handling of risk concentrations and cluster risks. All lending decisions that deviate from the credit risk strategy are considered to be 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 overall and at the business division level. For individual counterparties, risk is restricted using a system of limits based on factors such as creditworthiness, collateral, duration and country and sector considerations. The management and monitoring of risk concentrations (cluster risks) also takes place at the individual counterparty level. In addition, strict lending standards apply regarding, for instance, project structure and adequate risk sharing by the borrower. Loans that involve reputational risk are largely avoided using a negative list.

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" include, in particular, monitoring risks at the borrower and portfolio level, reporting, reviewing certain items of collateral and making decisions regarding loan-loss provisioning for major exposures. Responsibility for applying risk classification procedures, and for establishing, reviewing and monitoring those procedures is classified as a back office function, as is management of non-performing and troubled loans.

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

The initial introduction of a new rating procedure must be approved by the full Board of Management. Once a procedure is in place, maintenance of the procedure is then delegated to the Rating Committee. This includes the approval of the results of the annual maintenance and validation process, the classification of changes to rating systems and the annual assessment of the degree of cover of the existing internal rating systems. The permanent members of the Rating Committee include the heads of the Risk Controlling and Credit Risk Office Corporate

Centres, and the department heads of Overall Bank Risk & Reporting, and General and Corporate Lending Functions.

The Board of Management has assigned operational responsibility for monitoring and managing troubled exposures to the Monitoring Committee. This committee classifies the exposures judged to be troubled, commissions and assesses restructuring, reorganisation or winding-up plans, and monitors their implementation. In addition, it decides, based on the volume of the exposure, on changes to provisions for loan losses and other provisions or prepares a decision for the authorised decision maker. In principle, troubled exposures are still managed from an operational perspective by the responsible front and back office units. The Monitoring Committee is comprised of the division heads of the Financing, Capital Markets and Real Estate Financing business divisions, as well as the heads of the Treasury, Credit Risk Office and Legal Corporate Centres. The head of the Credit Risk Office has the right to veto any decision.

The Board of Management has consolidated the responsibilities for the assessment and monitoring of country risks in the Country Risk Committee. Among others, this 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. The Country Risk Committee is comprised of the division heads of the Financing, Capital Markets and Real Estate Financing business divisions, as well as the Treasury, Credit Risk Office and Risk Controlling Corporate Centres, and the department head of the Macro Research unit. The Credit Risk Office and Risk Controlling Corporate Centres each have the right to veto any decisions.

In addition, there are other management committees covering all risk types for the strategic management of counterparty risks and risk concentrations associated with them. These include the MKAP and the MKR.

Focus, structure and degree of risk associated with business activities

Counterparty risk is generally encountered in all four business divisions and in the Treasury Corporate Centre.

In the Capital Markets business division, counterparty and issuer risks arise primarily from the money-market, currency, securities lending and repurchase transactions entered into, and in the trading of financial instruments. When supporting investment funds and savings banks with the short-term provision and management of liquidity, the division consciously exposes itself to risk concentrations. These concentrations are managed using credit ratings or via a diversified portfolio of securities.

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 infrastructure financing, mainly in connection with cash flows for specific projects and measures. In transport financing, the creditworthiness of the economic beneficiary of the financing, as well as the performance of the assets being financed, are the primary risk drivers for counterparty risk. This risk is mitigated by obtaining senior collateral to the transport being financed and/or via guarantees from export credit agencies (ECA). Counterparty risks from export financing are only incurred if the financing is covered by guarantees from public ECAs or ECAs acting on behalf of public authorities. 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 infrastructure, transport and export financing 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 *Sparkassen-Finanzgruppe* and its transactions with the domestic public sector. Concentrations at the regional state level can occur 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 Real Estate Financing subdivision loans are granted against the provision of collateral security over the property that generates the cash flows. This limits the counterparty risk 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, risk concentrations are not material.

In the Securities business division, counterparty risk results predominantly from guarantee products.

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 system of limits that are primarily based on volumes.

Portfolio model

The starting point for the strategic analysis in the portfolio model 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 the total portfolio level and at the level of individual business divisions. The allocation is quantified based on the Deka Group's credit portfolio and 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 consistent 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 capital commitment than those that are more diversified. The individual risk premiums are regularly 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 the light of the risk concentrations on specific groups of counterparties, regions and sectors that result from the Group's business model, the limitation of both unsecured volume (net limitation) and the internal framework (gross limitation) of individual counterparties 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 the concentration, additional targets are defined for the maximum permissible limit per counterparty. Above a certain amount, particularly important counterparties from a business policy perspective (clusters) are also subject to additional reporting. Additional minimum requirements for the quality of the collateral received apply for especially significant repo/lending transactions. These requirements are contained in the collateral policy (page 52). In addition, the volume of repo/lending transactions is further restricted using supplementary limits in order to take into account potential value fluctuations of the underlying securities based on market-price-fluctuation risk.

The explicit limitation of country risks serves to effectively limit positions in countries with elevated risk. The risk concentration in Germany resulting from the business model is not subject to the limitation.

Quantification of counterparty risk

Market prices are always used to determine gross counterparty risk. The outstanding receivable amount is used for advance performance risk and open items. The adjusted gross position is then calculated by deducting certain insolvency-proof collateral. The net counterparty risk position results after deducting further collateral and positions such as covered securities.

The assessment of counterparty risks for individual borrowers is done with the help of internal rating systems. The 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 the different classes of receivables, especially for companies, banks, governments and for special lending and project financing. These include classic scorecard models through which creditworthiness is assessed on the basis of current quantitative and qualitative borrower characteristics, as well as 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. One module determines the probability of default using a ratings and portfolio-based simulation approach. In addition to the modules mentioned above, expert methods are also used for particular types of financing.

The borrower and country ratings are combined to measure the transfer risk on payment obligations that are denominated in a foreign currency from the borrower's perspective.

All of the rating modules that are in use are calibrated to a one-year probability of default. The rating classes are uniformly assigned according to the probability of default based on the master scale of the German Savings Bank and Giro Association (Deutsche Sparkassen- und Giroverband – DSGV). This scale serves as a standard reference point 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 model 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 result of the portfolio model is that it determines a CVaR with a holding period of 250 trading days and a confidence level of 95% (going concern approach) or 99.9% (liquidation approach). Risk concentrations are taken into account by considering the dependency structure of risk factors. In addition, the newly introduced modelling of dependencies also considers crisis events. Moreover, the CVaR for certain guarantee products and fund units in the Group's own portfolio are also taken into account. In addition to the CVaR, the expected shortfall (ES) is calculated.

The standard risk costs incorporated into the calculation of the expected return on equity capital 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 capital is determined using risk amounts differentiated by individual transaction and the corresponding sector and regional allocations. By taking into account the cost of equity capital in the structuring of loan terms, risk concentrations are included for individual counterparties (clusters), regions and industries.

Management and monitoring of counterparty risks

The Deka Group's counterparty risk, as determined based on CVaR, is directly compared with the allocated risk capital. In addition, the counterparty limits at the Group and business-division level are monitored based on a redistribution of the CVaR to individual transactions and a renewed aggregation to the business divisions.

Counterparty risk positions are managed using a volume-based limitation of the net positions 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 also be established for each borrower unit. The limits must be reapplied for or extended every year, as a minimum. The borrower-related net total limit is also divided into sub limits for position risk and advance performance risk.

A plausibility algorithm based on size and creditworthiness is used to determine the respective limits for counterparties. In addition to its volume-based limits, the Deka Group has also introduced thresholds for risk concentrations in connection with individual counterparties, known as clusters. This incorporates large exposures appropriately in further precautionary procedures and monitoring routines for risk concentrations. Thresholds for sectors are not taken into account due to the Deka Group's specific business model.

The Risk Control unit monitors the limits based on a centralised limit-monitoring system at both the borrower-unit 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. From a portfolio model perspective, an analysis of the most important borrowers and sectors is also carried out, based on CVaR.

The maximum amount of a country limit is derived from a limit matrix, which is calculated based on a foreign currency (FC) country rating and the gross domestic product. The individual country limits within the limit matrix are approved by the Country Risk Committee. The Risk Control unit monitors compliance with the respective country limits on a daily basis. Overruns are reported immediately to the members of the Country Risk Committee and the Capital Markets Credit Risk Management unit. The Capital Markets Credit Risk Management unit acts as the central administrative office for country limits. From a portfolio model perspective, an analysis of the most important countries is also carried out, based on CVaR.

The Deka Group has defined extensive processing and valuation guidelines for the collateral obtained in lending and trading transactions. The procedures for verifying the 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. The valuation of collateral and of any discounts applied to it is primarily based on the creditworthiness of the party providing the collateral, and 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 the financial collateral provided, in the form of securities obtained as part of repo/lending transactions, which comprise by far the largest share of the securities portfolio within 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. Scenarios include, for example, a rating downgrade for public authorities and federal state banks as well as an increase in loss ratios for certain collateral. The results of the stress tests are determined quarterly and reported to the Stress Testing Committee, the full 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 appear.

Reporting

As is the case with its quarterly risk report or the daily monitoring report, the Deka Group has developed comprehensive reports for counterparty risk with different publication frequencies and recipients. The primary overall reports include the risk report (including the credit risk report), the stress test report, the reporting on risk-bearing capacity for counterparty risk, the credit portfolio management information report and the Credit Risk Office quarterly report.

Besides these overall reports, there are also corresponding reports for every type of limits that is set. These reports are used to monitor compliance with the Group's requirements on a daily basis.

Additional, separate reporting is carried out for specific issues. For instance, risk concentrations in relation with individual counterparties are reported on a monthly basis to the MKAP and the MKR, and summarised in a quarterly risk report. Likewise monthly, a report is made to the MKAP from a portfolio model perspective on the most important borrowers, sectors and countries based on CVaR. The objective here is to raise awareness among the market divisions with respect to counterparty-related, regional and sector-related factors that negatively impact risk capital.

Default monitoring

Non-performing items are receivables that meet one of the impairment criteria described in detail in the notes (note [15]). These also include receivables that are in arrears for more than 90 days (Section 125 of the SolvV).

The Monitoring Committee is operationally responsible for the monitoring and management of troubled exposures. The committee's responsibilities include specifying early warning indicators and criteria to allocate exposures to different monitoring levels, monitoring exposures categorised as troubled, determining any required measures and monitoring the effect of these measures.

When establishing loan-loss provisions, loan receivables are reviewed individually for impairment. If the Bank identifies an impairment need, it recognises a specific provision in the corresponding amount. For receivables against which no provision is made, default risk and transfer risk are taken into account by recognising general provisions at the portfolio level. 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 note [15]). 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 specific circumstances. Portfolio-level general provisions for creditworthiness risks relate to impairments in the credit portfolio that have already occurred at the reporting date but which were not yet known. Provisions are created to take account of creditworthiness risks in off-balance sheet lending business.

Current risk situation

In the period under review, the Deka Group's counterparty risk based on CVaR rose slightly to €1,338m (end of 2012: €1,323m). Counterparty risk due purely to market movements and changes in positions declined slightly. The risk-increasing effect from rating downgrades of individual counterparties, particularly from the financial sector, were more than offset by improvements in ratings for other counterparties and by overall lower migration risk. Higher portfolio positions, primarily in the Capital Markets business division and in Treasury, contributed to this increase in risk, while volume effects reduced risk in the Financing and Real Estate business divisions. The overall increase in risk was primarily caused by changes in methodology due to the validation of the credit portfolio model, which increased risk, in part by taking into account crisis correlations.

Gross loan volume, which at DekaBank encompasses more than the definition of a loan in accordance with Section 19(1) of the KWG in order to adequately take into account significant counterparty risks (such as underlying risks from derivative transactions), declined during the year by €17.6bn to €139.9bn (end of 2012: €157.6bn) (Fig. 18). This decline was due, with the exception of the public sector international risk segment, to a marginal increase in all risk segments. The savings banks and financial institutions risk segments were impacted by the decline in money on call and time deposits, decreased bond holdings, as well as lower volumes of both liquidity invested at the German Central Bank (*Deutsche Bundesbank)* and of derivative transactions. The focus on loan assets that can be placed externally in the segments outside of savings bank financing also led to lower gross volumes in transport and export finance, as well as in the risk segments energy and infrastructure utility and property risk. The gross loan volume to corporates decreased slightly as well, primarily because of lower bond holdings. The ongoing reduction in positions in non-core business contributed €1.3bn to the reduction in gross loan volume.

Gross loan volume *(Fig. 18)*

€m	31.12.2013	31.12.2012
Financial institutions	68,073	77,948
Public sector Germany	18,969	19,827
Savings banks	14,508	17,339
Corporates	11,371	11,905
Funds (transactions and units)	9,674	10,091
Property risk	6,294	8,202
Transport & export finance	4,363	5,192
Energy and utility infrastructure	1,910	2,345
Other	4,764	4,717
Total	**139,926**	**157,565**

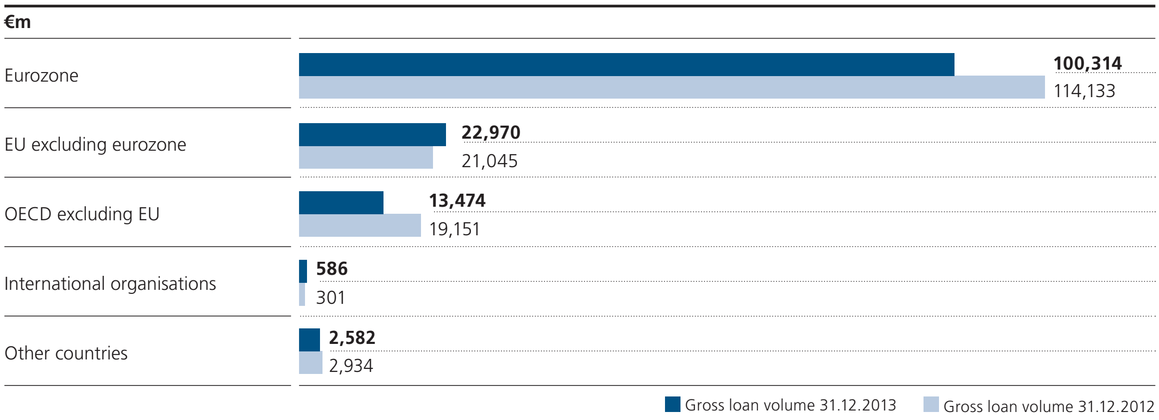
Net loan volume decreased from €50.7bn in the previous year to €47.3bn. As far as risk segments are concerned, the distribution was similar to that seen in gross loan volume, i.e. here too, the largest share was attributable to financial institutions and savings banks (Fig. 19).

Net loan volume *(Fig. 19)*

€m	31.12.2013	31.12.2012
Financial institutions	19,030	19,878
Savings banks	9,899	11,122
Corporates	6,391	5,933
Funds (transactions and units)	5,279	5,331
Property risk	1,278	2,252
Transport & export finance	651	775
Energy and utility infrastructure	1,817	2,242
Other	2,954	3,184
Total	**47,299**	**50,717**

As in previous years, the credit portfolio remained heavily focused on the eurozone. As at the end of 2013, 71.7% (end of 2012: 72.4%) of gross loan volume was attributable to eurozone countries (Fig. 20). The slight decline related primarily to German customers, although Germany was still the source of more than half of the entire gross loan volume. In addition, significant portions were attributable to the United Kingdom, France and Luxembourg, with France and the United Kingdom each posting a considerable increase.

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



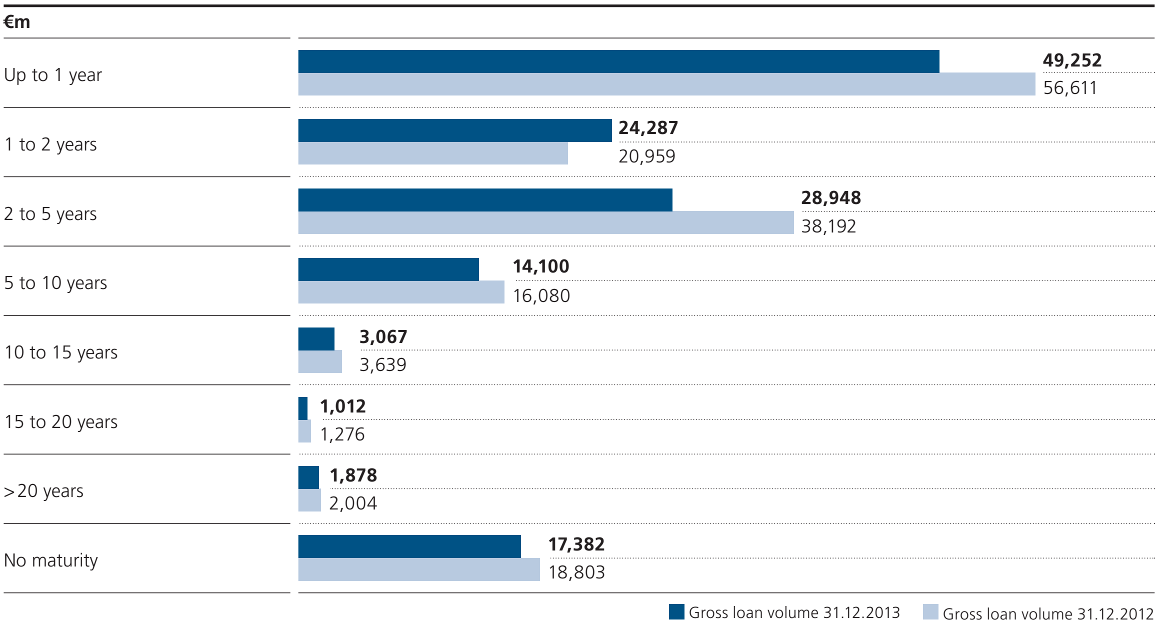
At the end of 2013, the gross loan volume attributable to borrowers in the closely monitored countries of Italy, Spain, Ireland, Greece and Portugal totalled €4.5bn (end of 2012: €4.4bn), which represents 3.2% of total gross loan volume (Fig. 21). The volume related primarily to banks and corporations. Loans to central governments accounted for only €267m of gross loan volume (end of 2012: €311m). The loan volumes attributable to Cyprus and Hungary were both negligible and related primarily to ship financing in Cyprus, and financing of infrastructure in Hungary. The volume of loans attributable to Egypt was negligible overall. As of the reporting date, there were no outstanding loans to counterparties in Slovenia or Ukraine – countries that are currently a source of discussion.

Gross loan volume by PIIGS countries and sector as at 31.12.2013 *(Fig. 21)*

€m	Greece	Ireland	Spain	Italy	Portugal	Total
Central government	0	0	54	204	9	267
Public sector	0	0	64	0	0	64
Banks	0	5	1,708	725	50	2,489
Corporates	0	345	529	580	48	1,502
Other	0	13	57	91	0	160
Total result	**0**	**363**	**2,410**	**1,600**	**108**	**4,481**
Change vs. previous year						
Central government	0	–4	–38	1	–3	–44
Public sector	0	0	–43	0	0	–43
Banks	0	–132	754	19	–1	642
Corporates	–259	–85	–17	–68	–1	–430
Other	0	–7	8	–22	0	–23
Total result	**–259**	**–228**	**662**	**–70**	**–4**	**101**

Due to the importance of the Deka Group as a liquidity platform for the savings bank organisation, the maturity of its credit portfolio remained primarily in the short-term range, as at the end of 2013. 35.2% of gross loan volume was attributable to business with a residual maturity of less than one year, whereas the share of business with maturities greater than ten years declined to 4.3% (prior year: 4.4%). Compared to the end of 2012, the average legal residual term of gross loan volume fell slightly by 0.1 years to 2.9 years (Fig. 22).

Gross loan volume by remaining maturity *(Fig. 22)*



Regarding borrower units, the concentration of the loan portfolio increased slightly. At the end of 2013, 24.8% of net loan volume was attributable to the ten largest borrowers (end of 2012: 23.8%). 80% of net loan volume was concentrated with 4.9% (prior year: 5.6%) of borrower units. In terms of size categories, the emphasis is on borrowers with more than €1.5bn gross loan volume; these positions are mainly made up of 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 backed by the Federal Republic of Germany. Due to this extensive level of collateralisation, a considerably lower net loan volume remains.

As at the end of 2013, the gross loan volume continues to have an average rating of 3 in accordance with the DSGV master scale. The average probability of default declined by two basis points to 15 bps. Viewed from a net perspective, the average rating improved year-on-year from 4 to 3, with an average probability of default of 19 bps (previous year: 24 bps). Within the groupings determined by rating class, the rating of about 85% of net loan volume did not change. As far as the rest is concerned, the changes were mostly downgrades. In terms of risk segments, the rating of financial institutions declined by 4 bps from A to 2 because of a marginally higher probability of default. Savings banks continued to have the best possible rating (AAA) (Fig. 23).

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

€m	Average PD in bps	Average rating 31.12.2013	31.12.2013	Average PD in bps	Average rating 31.12.2012	31.12.2012
Financial institutions	11	2	19,030	7	A	19,878
Savings banks	1	AAA	9,899	1	AAA	11,122
Corporates	21	4	6,391	30	4	5,933
Public sector international	7	A	1,500	8	A–	1,431
Public sector Germany	1	AAA	224	1	AAA	209
Public infrastructure	84	7	853	211	9	1,069
Transport & export finance	174	9	651	153	8	775
Energy and utility infrastructure	132	8	1,817	151	8	2,242
Property risk	54	6	1,278	77	7	2,252
Retail portfolio	17	3	292	25	4	381
Funds (transaction and units)	16	3	5,279	14	3	5,331
Equity investments	121	8	84	113	8	92
Total result	**19**	**3**	**47,299**	**24**	**4**	**50,717**

The provisions for loan losses reported in the balance sheet declined very significantly from €724.1m at the end of 2012 to €227.4m (Fig. 24). This was mostly due to the utilisation of specific provisions, and also to the sale of a receivable due from an Icelandic bank. General portfolio provisions for creditworthiness risks and provisions for portfolio risks declined compared with the end of 2012 from €61.9m to now €43.6m, while general portfolio provisions for country risks remained unchanged year-on-year at €1.3m.

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

€m	Financial institutions	Funds	Transport & export finance	Energy and utility infrastructure	Property risk	Public infra-structure	Corporates	Other	31.12.2013	31.12.2012
Impaired gross loan volume[1]	**0.0**	**0.0**	**366.8**	**102.5**	**73.6**	**67.5**	**21.7**	**0.1**	**632.2**	**1,368.9**
Collateral at fair value	**0.0**	**0.0**	**169.1**	**0.0**	**43.2**	**0.0**	**0.0**	**0.0**	**212.3**	**275.1**
Impaired net loan volume[1]	**0.0**	**0.0**	**197.7**	**102.5**	**30.4**	**67.5**	**21.7**	**0.1**	**419.9**	**1,093.8**
Provisions for loan losses[2]	**9.1**	**0.3**	**112.2**	**25.4**	**37.3**	**21.7**	**20.8**	**0.6**	**227.4**	**724.1**
Specific valuation allowances	0.0	0.0	97.3	15.6	31.0	19.3	15.9	0.1	179.2	658.2
Provisions	0.0	0.0	0.0	2.6	0.0	0.0	0.7	0.0	3.3	2.7
Portfolio valuation allowances for country risks	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.0	1.3	1.3
Portfolio valuation allowances for creditworthiness risks	9.1	0.3	13.6	7.2	6.3	2.4	4.2	0.5	43.6	61.9

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

Collateral for exposures against which specific provisions were made consisted mainly of charges on property in the property risk segment, and aircraft mortgages, ship mortgages and sureties for the transport and export finance risk segment. Sureties were taken into account when determining the level of general portfolio provisions for country risks. Specific and general portfolio provisions are calculated taking into account the recoverable amount of collateral. The assets resulting from the utilisation of held collateral in the past financial year are recognised on the balance sheet in the amount of €13m. This mainly relates to liquid funds received as a result of the exercise of mortgage claims.

Operational risks

Strategic framework and responsibilities

The strategy determined by the Deka Group to deal with operational risks (OR strategy) is the basis for the way 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 the 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 the required conditions for Group-wide implementation of the strategy are in place and adopting measures for OR management at the Group level.

The Risk-Bearing Capacity & OR Control unit is responsible for the key components of OR control in the Deka Group. In particular, it is responsible for the methodology applied to OR management, for independent OR reporting and for specialist support of the infrastructure required to fulfil these responsibilities. As part of the central quality assurance process for risk assessments made by the specialist departments, the assessment of the loss scenarios was systematically compared for the first time with the assessment of the criticality of business processes for business continuity preparedness.

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 the implementation of the requirements specified in the OR strategy and the actual management of operational risks, the OR managers are responsible for the 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.

In order to ensure that all employees participating in the OR process are qualified, on-line training was developed in 2013 covering the management and control of operational risks. All participants in the OR process attended the training. The training covers the foundations of managing operational risks, the regulatory basis for these and the current organisational and methodological implementation in the Deka Group.

Cross-divisional functions

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

When fulfilling its responsibilities, the Internal Audit Corporate Centre (page 36) 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 Fraud Prevention Forum with information on loss events and identified fraud scenarios, and incorporates the assessments developed by the Forum into the OR records.

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 for the employees who process personal data so that they are familiar with the provisions and special requirements of data protection.

The Corporate Security Management (CSM) and Information Security Management (ISM) units are jointly responsible for ensuring that security risks in the Deka Group are recognised and risk-reducing measures are identified. The objective of both units is to fulfil security requirements to minimise risk in the Group in an adequate manner so that operational risks are reduced as well. ISM advises and supports all Group units in order to establish and maintain an adequate level of information security over the long term, taking into account the individual business needs of the unit. CSM brings together the issues of operational security in the Deka Group and is responsible for business continuity precautions, risk management in terms of operational security and crisis management.

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 losses, which, due to their cross-unit nature and potentially high maximum loss potential, cannot be adequately identified via the self-assessment. As part of this process, regularly-updated risk factors related to both the Group's internal controls and its business environment flow into the assessment of scenarios. These factors therefore increase the sensitivity of the scenarios to risk and help to identify developments and derive management-related courses of action 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. As well as providing a description of the loss, these data include documentation that covers the causes of the loss and suitable measures to avoid similar cases in the future. Furthermore, 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 requirement and the internal risk-bearing capacity analysis of the Group.

Reporting

The Risk-Bearing Capacity & OR Control unit supports the decision makers involved in the OR management process by providing quarterly standard reports on all significant operational risks. These reports are distributed to heads of business divisions and legal units. In addition, it provides the full Board of Management and the

Administrative Board with an aggregated quarterly report as part of the overall risk report. In addition to summary information on operational risks in the Deka Group, this report also contains detailed information on the steps taken or planned for the largest individual OR risks of the units.

Risk Control also prepares monthly reports that explain the relationship between changes in the loss potential of the events in the scenario analyses and the trends of risk indicators incorporated into these analyses. In this way it helps to ensure that targeted risk management measures are determined in a timely manner.

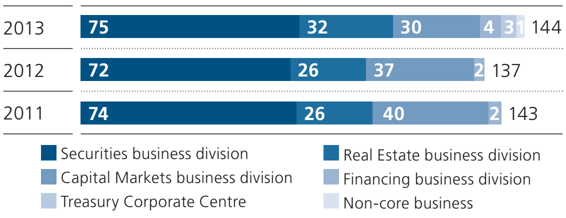
In addition to regular reporting, ad-hoc reporting of loss events is made to the respective unit heads and department heads above a predefined loss amount.

Current risk situation

The VaR for operational risks as determined using an advanced measurement approach (confidence level of 99.9% and a risk horizon of one year) totalled €144m as at 31 December 2013 and therefore rose by 5% compared with the same point in 2012 (€137m) (Fig. 25). The change in value-at-risk is mainly attributable to changes in forward-looking assessments of risk. In particular, the moderate increase was caused by the inclusion of a new scenario analysis concerning the change in requirements in relation to the liability of a custodian towards investors. This change in requirements occurred when the amended German Investment Code (*Kapitalanlagegesetzbuch* – KAGB) took effect. With regard to the losses actually incurred last year due to operational risks, the lower number and amount of internal losses were offset by the inclusion of more severe external losses. Overall, the level of risk remains non-critical.

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

(99.9%, 1 year), €m

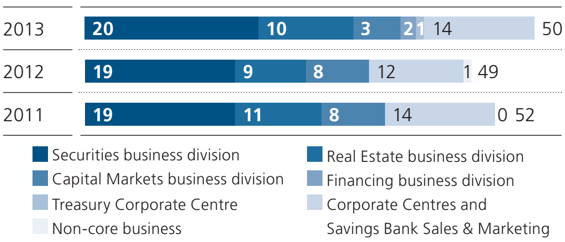


When value-at-risk was allocated to the business divisions and operating units, which is important for internal management purposes, a slight shift resulted during the year from the Capital Markets business division (which was reported last year on a combined base with Treasury and the Financing business division) to the Real Estate business division. This shift occurred as a result of loss events during the year.

The OR loss potential identified in the Group-wide risk inventory totalled €49.7m as at the end of 2013, a 1% increase on the prior-year value of €48.8m (Fig. 26). In contrast to value-at-risk as a loss upper limit, which may not be exceeded with a certain probability, loss potential is an expected value that results from the estimated likelihood and potential loss of all OR scenarios in the Deka Group.

Loss potential *(Fig. 26)*

€m



The loss potential changed only slightly, and was subject to a number of effects which largely offset each other. As a result, the loss potential of the Capital Markets and Financing business divisions, (formerly part of the Corporates & Markets business division), and the Treasury Corporate Centre declined because risk was identified more precisely when the former business division was split up. This compares to an increase in the cumulative loss potential of the other corporate centres and the Savings Bank Sales & Marketing unit caused by consideration of new risks and the first-time inclusion of country-specific fraud risk analyses performed for Luxembourg and Switzerland.

Compliance

In accordance with the minimum requirements for the compliance function and the additional conduct, organisational and transparency duties as per Section 31 et seq. of the WpHG for securities trading companies (MaComp), the Deka Group has a separate Compliance unit in order to ensure that the requirements for a durable, effective and independent compliance function are fulfilled. The Compliance unit also covers the requirements under the German Money Laundering Act (GWG)/Central Office (Section 25h of the KWG).

Its responsibilities include the prevention of money laundering and terrorism financing and the prevention of other criminal offences. In addition, it ensures compliance with legal duties associated with securities trading and requirements for capital market and real estate activities, as well as with EU financial sanctions and embargoes. In carrying out its duties, the Compliance unit advises the specialist units on an ongoing basis. It carries out timely reviews regarding adherence to statutory and regulatory requirements related to compliance and the overall compliance guidelines.

The Compliance Officer reports to the Board of Management at least once a year and is also the point of contact for supervisory authorities and other governmental agencies.

The ongoing implementation and integration of compliance requirements in general 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. Furthermore, the compliance regulations also protect employees, help maintain the Deka Group's good reputation in the market and ensure that conflicts of interest are managed effectively.

The fourth amendment of MaRisk, dated 14 December 2012, places new requirements on the compliance function in banks. DekaBank began implanting these requirements in April 2013. By the end of the year, the Deka Group had identified the key statutory regulations and requirements, the Board of Management had passed a resolution to establish a compliance function and appointed the MaRisk Compliance Officer and his deputy. Their tasks and responsibilities were documented in their respective job descriptions. The new compliance function was established within the Compliance unit in the MaRisk Compliance, Basic Functions and Projects group.

The core responsibilities of the MaRisk compliance function are to identify and limit compliance risks, advise the Board of Management and provide advisory services to the specialist units, particularly in connection with the implementation of effective processes and procedures to ensure compliance with significant legal regulations and requirements. Those aspects of the duties required of a MaRisk compliance function that have yet to be fulfilled are covered by an implementation plan for 2014. This plan involves establishing principles (a system of instructions), a reporting system and steps to monitor and oversee compliance requirements for those areas of law that have been identified as significant for the Group.

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 transparent Group-wide organisational and control structure. The Finance unit is responsible for preparing and coordinating monthly, quarterly and annual financial statements. The units involved in the accounting process are appropriately staffed, in terms of both the number of personnel and their qualifications. Furthermore, 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 use of posting, 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 on the basis of 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 are also used. The implementation of these activities and the procedures to be followed are documented in specialist and implementation plans.

At an aggregated level (for example with regard to individual balance sheet items), additional checks are carried out 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 implemented 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 that the same business transaction is accounted for uniformly in different Group units and companies in compliance with the applicable accounting standards. Specific work instructions are used to implement the Group policy at the operational level in the individual specialist departments. These instructions also describe the control mechanisms to be followed. Guidelines and authorisation concepts 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. 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 the limits on liquidity balances in the liquidity matrix (page XX) 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 material at present.

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

When fulfilling its management responsibilities regarding liquidity risk management, the Board of Management is supported by the MKAP. The MKAP is a committee that prepares decisions regarding, among other things, liquidity and funding management. It also develops recommendations (hereafter 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 full Board of Management, as a permanent member with a voting right, is the core of this crisis committee.

At the strategic level, liquidity positions are managed centrally by the Treasury unit. As part of asset-liability management, structural liquidity is managed and monitored through funding matrices (FMs) and via the charging of transfer pricing for funds. At the same time, it ensures that an adequate liquidity reserve of central-bank-eligible collateral is available. Moreover, the Treasury unit is responsible for the management of the Deka Group's strategic liquidity reserves.

The Money Market/Currencies & Repo/Lending unit in the Capital Markets business division performs the operational management of short-term liquidity up to a maturity of two years. To that end, this unit conducts money market transactions in the interbank market, with the savings banks, with the *Bundesbank* or the ECB, with companies and with insurance companies and funds. In addition, it is responsible for the management of the operating liquidity reserve.

The liquidity position is analysed and monitored across the entire Group by the Liquidity Risk Management unit in the Risk Control Corporate Centre.

Management and limit setting

Liquidity status

DekaBank's current liquidity status in the short term (up to two years) is determined on a daily basis by the Money Market/Currencies & Repo/Lending unit and is used to manage day-to-day short-term liquidity.

Funding matrices

The purpose of the funding matrix (FM) 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 liquid assets in the form of securities, the 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.

Cash flows based on legal maturities are the foundation for the model. This approach is based on the sum of all legal net cash flows per maturity band. Reconciliation between the legal perspective and the expected cash flows is performed using modelling assumptions. Securities used for the liquidity potential are either allocated to the strategic liquidity reserve or the operating liquidity reserve. The strategic liquidity reserve is used to cover possible stress-induced liquidity outflows from the banking book as well as stochastic liquidity outflows that cannot be influenced by DekaBank or can only be influenced by the Bank to a limited extent (stochastic liquidity position). The operating liquidity reserve contains all securities that are not allocated to the strategic liquidity reserve and which are used in the business activities of the Capital Markets business division.

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 reproduces the simultaneous occurrence of both the institution's own and market-wide stress factors. This FM fully implements MaRisk requirements. In addition, separate stress scenarios are examined in special FMs. The underlying models are divided into idiosyncratic and market-related scenarios.

Idiosyncratic scenarios affect DekaBank directly (for example downgrading of DekaBank's creditworthiness by rating agencies). Market-related scenarios are focused on the impact of a funding or banking crisis. Depending on the stress scenario, various modelling assumptions are applied. 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 ratio under the Liquidity Directive

Liquidity risk is also mitigated using the requirements of the Liquidity Directive (Section 11 of the KWG). The liquidity ratio pursuant to the Liquidity Directive 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.

In order to ensure timely and adequate management of the liquidity coverage ratio (LCR), which is the key regulatory liquidity ratio to be met from 2015 onwards, the LCR has been determined on a regular basis since 2012.

Reporting

The aforementioned FMs used for management and risk monitoring purposes are prepared daily by the Liquidity Risk Management unit 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 MKAP twice a week. 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 ratio pursuant to the Liquidity Directive is monitored daily in the reporting system of the Finance Corporate Centre.

Current risk situation

The Deka Group had ample liquidity during the reporting period. The Group has a high liquidity potential that is readily convertible on short notice. The Group can utilise a large portfolio of liquid securities, most of which are eligible as collateral for central bank borrowings, the available surplus cover in the cover pool and corresponding repo transactions. The liquidity balances were considerably positive in all relevant maturity bands of the leading FM "combined stress scenario" for periods up to 20 years. There were no limit overruns at any time during the reporting period. A significant part of the Group's liquidity generation and provision is driven by its business with the savings banks and funds.

Pursuant to the requirements of MaRisk, an institution must be able to cover any additional refinancing requirement that results from institution-specific stress scenarios over a period of at least one month using the liquidity reserve that must be maintained. DekaBank's institution-specific scenarios are defined far beyond a one month time horizon, and the liquidity balances were considerably positive across all maturity bands.

As at the reporting date, the accumulated liquidity balance of the Deka Group's "combined stress scenario" funding matrix in the short-term range (up to one week) amounted to €6.3bn, which was an increase compared with the balance at the end of 2012 (€5.3bn). In the maturity band of up to one month, the liquidity surplus totalled €9.5bn (end of 2012: €3.8bn), and in the medium to long-term range (three months) it was €13.6bn (end of 2012: €9.5bn) (Fig. 27).

Combined stress scenario funding matrix of Deka Group as at 31 December 2013 *(Fig. 27)*

€m	D1	> D1–1M	> 1M–12M	> 12M–5Y	> 5Y–20Y	> 20Y
Liquidity potential (accumulated) [1]	20,284	31,614	5,281	76	43	43
Net cash flows from derivatives (accumulated)	–200	–155	–181	427	–31	–54
Net cash flows from other products (accumulated)	–12,915	–21,989	13,672	16,144	6,927	–370
Liquidity balance (accumulated)	**7,170**	**9,470**	**18,773**	**16,648**	**6,938**	**–381**
For information purposes:						
Net cash flows from derivatives by legal maturity (accumulated)	–200	–1,386	–2,098	–2,467	–2,780	–174
Net cash flows from other products by legal maturity (accumulated)	–8,367	–26,769	–22,011	–1,048	496	–664
Net cash flows by legal maturity (accumulated)	**–8,567**	**–28,155**	**–24,109**	**–3,515**	**–2,284**	**–838**

[1] Including synthetic lending substitute transactions.

The refinancing profile was also balanced as at the end of 2013. 62.5% of the Group's total refinancing was obtained in money market products, and 37.5% was derived from capital market products. Therefore, the ratio of money market products remained nearly constant compared with the end of 2012. 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. This means that the Group's refinancing was broadly diversified by investor group.

The regulatory requirements of the Liquidity Directive were likewise surpassed at all times during the reporting period. The annual average for the liquidity ratio of the first maturity band, determined on a daily basis, was 1.32 (previous year: 1.40). It fluctuated in a range of 1.24 to 1.48. The ratio at the close of 2013 stood at 1.41 (end of 2012: 1.27).

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 different, 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 significant risk factors for asset management activities in the Securities and Real Estate business divisions are the amount of commission income and expenses, which vary in line with customer behaviour and the market environment. The volatility of these risk factors is simulated based on the asset class, i.e. equities, bonds and property, using reference indices. For activities in the other business divisions and in order to take a conservative approach when determining risk, an additional capital need in the form of a standard surcharge is established for all business divisions.

As business risk is a particularly important type of risk for the Securities and Real Estate business divisions, an additional method of risk analysis, the so-called "self-assessment scenario", is used in these business divisions when the annual revenue and cost budgets are prepared. This assessment is used to identify and assess business risks. The product and competitive environment is taken into account using scenarios, particularly with regard to the impact of specific risk factors on profit.

During the reporting year, business risk increased moderately to €421m (end of 2012: €405m). This increase was primarily caused by net commission income, which is relevant for business risk, in the Securities and Real Estate business divisions. Overall business risk declined slightly compared with the prior year.

Reputational risk

In accordance with the definition of reputational risk as a secondary risk, it is initially determined, assessed, managed and reported on within the context of the respective primary risks. For instance, when assessing 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 negative lists and using an appropriate assessment as part of the credit approval process. Finally, when evaluating business risk, the danger of lower commissions due to the materialisation of reputational risks is taken into account.

In addition to the risk management approaches outlined above for specific risk types, a Group-wide assessment across all types of risk is performed in the macroeconomic stress tests to determine the possible impact of reputational risk. With the involvement of the business divisions and taking into account any loss events that have already occurred or are possible, the effects on both the Group's profit and on the individual risk types are evaluated in order to draw conclusions on the risk-bearing capacity of the Deka Group in this scenario.

The MKR deals with matters impacting reputational risk on a monthly basis. Reports are presented to the Board of Management and the Administrative Board on a quarterly basis.

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 2013, the VaR related to shareholding risk totalled €38m, which was close to the prior-year value of €37m.

Property risk

Property risk is measured on the basis of the IFRS book values of the property held in the Bank's portfolio and the volatilities in the relative changes in value of the property in the respective location.

With a VaR of €6m, property risk was of secondary importance, as was the case in the previous year (€6m).

Property fund risk

Property fund risk results from property fund units held in the Bank's own portfolio.

With a VaR of €19m (previous year: €11m), property fund risk remains an immaterial risk for the Deka Group. The increase is primarily attributable to higher volumes in the Group's own portfolio.

Structured capital market credit products

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

Following the considerable reduction in the prior year, the net nominal value declined significantly again and totalled €1.0bn as at the end of 2013 (end of 2012: €1.5bn). This reduction was primarily due to the sale of positions and repayments, and to currency effects to a lesser extent.

The value of structured capital market credit products categorised at fair value is market-oriented. Accordingly, any changes in the positions categorised at fair value are reported directly in the income statement. No actual nominal or interest defaults occurred in the tranches in the reporting year. Indicative prices from pricing service agencies and brokers were used at the end of 2013 to determine the carrying amount of the majority of assets in the at-fair-value category. A theoretical valuation using similar securities was performed for just four positions due to a lack of quoted prices.

88.0% of the portfolio (end of 2012: 90.0%) consisted of investment-grade securities. Upgrades and downgrades were roughly equal. The portfolio was actively reduced primarily in the areas with poorer ratings (Fig. 28).

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

Product		AAA	AA	A	BBB	Non investment grade	Unrated	Total (previous year
Structured	ABS	14	0	10	2	27	0	52 (73)
	RMBS	0	27	186	43	22	0	278 (361)
	CMBS	22	32	86	0	27	0	166 (486)
	CLO	18	201	91	67	18	0	395 (454)
	CSO	0	0	0	50	25	0	75 (75)
	Structured Finance CDO	0	0	0	20	0	0	20 (20)
Alternative	CPPI	0	0	0	0	0	0	0 (50)
Total		**53**	**260**	**372**	**182**	**118**	0	**986 (1,519)**

The country focus of the residual portfolio remains unchanged in West Europe. As at the end of 2013, 73.8% of the securitisations related to the European market. The only noteworthy positions outside Europe are in CLO and CSO securitisations (Fig. 29). As at the 2013 reporting date, the expected average residual term of the positions stood at 4.6 years. Based on current expectations, more than half of the remaining securitised positions will be redeemed or will mature by the end of 2017.

Structured capital market credit products by risk country (nominal value in €m) *(Fig. 29)*

Product	**Structured**						**Alternative**	**Total**
Land	**ABS**	**RMBS**	**CMBS**	**CLO**	**CSO**	**Structured Finance CDO**	**CPPI**	**(previous year)**
Germany	0	15	73	0	0	0	0	88 (146)
UK	14	92	58	0	0	0	0	165 (281)
Spain	0	70	0	0	0	0	0	71 (76)
Italy	6	100	13	0	0	0	0	119 (151)
Benelux	0	0	22	0	0	0	0	22 (207)
Rest of Europe	0	0	0	243	75	20	0	338 (316)
USA	32	0	0	152	0	0	0	183 (343)
Total	**52**	**278**	**166**	**395**	**75**	**20**	**0**	**986 (1,519)**

Based on a confidence level of 95% and a holding period of ten days as at year end, the credit spread risk for the securitisation positions in non-core business totalled €6.1m (end of 2012: €12.4m).

Annual financial statements

Balance sheet as at 31 December 2013

Assets	€	€	€	31.12.2013 €	31.12.2012 €'000
1. Cash reserves					
a) Cash on hand			18,660.87		5
b) Balances with central banks			426,414,633.03	426,433,293.90	3,312,964
of which: with Deutsche Bundesbank	426,414,633.03				(3,312,964)
2. Due from banks					
a) due on demand			3,427,897,321.90		5,223,395
b) other claims			16,584,743,995.58	20,012,641,317.48	19,185,344
of which: public sector loans	4,441,518,529.87				(6,742,739)
3. Due from customers				15,114,853,809.16	18,104,935
of which:					
mortgage loans	872,407,823.06				(830,810)
public sector loans	3,287,980,727.98				(3,579,357)
other loans secured by mortgages	106,763,092.74				(69,963)
4. Bonds and other fixed-interest securities					
a) Bonds and debt securities					
aa) from public sector issuers		3,919,229,271.92			2,671,630
of which: eligible as collateral with Deutsche Bundesbank	3,729,742,679.90				(2,486,332)
ab) from other issuers		10,314,464,446.47	14,233,693,718.39		10,450,845
of which: eligible as collateral with Deutsche Bundesbank	7,138,391,519.53				(6,933,368)
b) own bonds			1,965,078,825.53	16,198,772,543.92	2,052,814
Nominal amount	1,964,144,000.00				(2,047,506)
5. Shares and other non fixed-interest securities				3,851,012,948.36	3,870,980
6. Trading portfolio				60,649,580,394.07	65,009,753
7. Equity investments				62,214,347.87	63,755
of which: in banks	2,789,404.99				(2,789)
8. Shares in affiliated companies				368,244,605.05	368,195
of which:					
in banks	72,158,448.57				(72,158)
in financial services providers	11,687,450.00				(11,687)
9. Trust assets				175,911,236.10	214,994
10. Intangible assets					
a) Concessions. industrial property rights, and similar rights and values as well as licences there to, acquired for a consideration			29,768,656.00		37,947
b) Advance payments			2,290,427.67	32,059,083.67	3,064
11. Tangible assets				17,741,295.07	18,230
12. Other assets				325,034,922.21	162,664
13. Prepaid expenses and accrued income					
a) from underwriting and lending business			17,448,575.79		26,735
b) other			29,380,947.45	46,829,523.24	23,798
14. Excess of plan assets over pension liabilities				5,447,959.96	9,170
Total assets				**117,286,777,280.06**	**130,811,217**

Liabilities	€	€	€	31.12.2013 €	31.12.2012 €'000
1. Due to banks					
a) due on demand			4,290,140,076.00		3,674,558
b) with agreed maturity or period of notice			17,944,553,575.80	22,234,693,651.80	16,639,124
of which:					
registered mortgage Pfandbriefe	60,193,521.92				(0)
registered public sector Pfandbriefe	835,836,765.26				(1,559,980)
2. Due to customers					
Other liabilities					
a) due on demand			4,146,702,239.42		3,924,153
b) with agreed maturity or period of notice			12,152,379,212.69	16,299,081,452.11	14,370,873
of which: registered public sector Pfandbriefe	3,952,595,863.44				(5,210,972)
3. Securitised liabilities					
a) bonds issued			23,269,645,244.60		28,968,634
of which:					
mortgage Pfandbriefe	25,147,582.65				(35,301)
public sector Pfandbriefe	2,565,567,731.20				(5,483,037)
b) other securitised liabilities			4,821,089,607.60	28,090,734,852.20	5,815,925
of which: money market paper	4,821,089,607.60				(5,815,925)
4. Trading portfolio				45,270,676,753.28	52,090,992
5. Trust liabilities				175,911,236.10	214,994
6. Other liabilities				182,315,751.69	596,007
7. Accruals and deferred income					
a) from underwriting and lending business			10,857,987.27		16,601
b) other			20,598,242.58	31,456,229.85	15,947
8. Provisions					
a) provisions for pensions and similar obligations			4,243,786.00		0
b) provisions for taxes			99,904,439.07		77,724
c) other provisions			590,581,576.75	694,729,801.82	462,661
9. Subordinated liabilities				846,685,650.69	733,727
10. Profit participation capital				20,000,000.00	20,000
of which:					
due in less than two years	20,000,000.00				(20,000)
11. Fund for general banking risks				2,283,014,537.94	2,031,820
of which:					
special item pursuant to Section 340e (4) HGB	94,006,000.00				(68,706)
12. Equity					
a) Subscribed capital					
aa) subscribed capital		191,729,340.56			191,729
ab) silent capital contributions		552,360,457.03	744,089,797.59		552,360
b) Capital reserve			189,366,198.03		189,366
c) Retained earnings					
ca) reserves required by the Bank's statutes		51,283,598.27			51,284
cb) other retained earnings		114,068,590.47	165,352,188.74		114,069
d) Net income			58,669,178.22	1,157,477,362.58	58,669
Total liabilities				**117,286,777,280.06**	**130,811,217**

1. Contingent liabilities					
Liabilities from guarantees and warranty agreements				2,110,501,004.63	2,050,626
2. Other liabilities					
Irrevocable lending commitments				826,894,230.13	1,321,357

Income statement for the period 1 January to 31 December 2013

Expenses and income	€	€	€	2013 €	2012 €'000
1. Interest income from					
a) Lending and money market transactions		2,098,659,834.29			3,807,704
b) Fixed-income securities and debt register claims		312,559,512.10	2,411,219,346.39		366,019
2. Interest expenses			2,247,680,568.85	163,538,777.54	4,142,897
3. Current income from					
a) Shares and other non fixed-interest securities			72,692,410.21		93,012
b) Equity investments			2,019,690.93		2,682
c) Shares in affiliated companies			164,119,743.53	238,831,844.67	175,543
4. Income from profit pooling, profit transfer and partial profit transfer agreements				172,063,467.94	152,870
5. Commission income			759,546,269.42		766,933
6. Commission expenses			601,842,966.75	157,703,302.67	611,472
7. Net income/expenses from trading portfolio				227,692,008.78	295,175
8. Other operating income				328,225,187.08	308,715
9. General administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		240,670,151.66			233,682
ab) Social security contributions and expenses for pensions and other employee benefits		61,004,882.86	301,675,034.52		51,440
of which: for retirement pensions	33,861,277.69				(25,014)
b) Other administrative expenses			350,399,749.47	652,074,783.99	375,967
10. Write-downs and valuation allowances on intangible assets and tangible assets				16,821,524.34	12,999
11. Other operating expenses				181,620,540.17	37,463
12. Write-downs and valuation allowances on claims and certain securities and allocations to provisions for loan losses				0.00	21,234
13. Income from write-ups to claims and certain securities and from reversals of provisions for loan losses				35,603,894.26	0
14. Allocations to the fund for general banking risks				225,894,955.42	228,638
15. Income from write-ups to equity investments, shares in affiliates and securities held as fixed assets				5,192,372.79	6,459
16. Expenses due to assumption of losses				926,515.28	5,302
17. Profit or loss on ordinary activities				251,512,536.53	254,018
18. Income taxes				144,681,995.99	143,136
19. Income transferred under profit pooling, profit transfer or partial profit transfer agreements				48,161,362.32	52,213
20. Net income				58,669,178.22	58,669

Notes

General information

1 Preparation of the annual financial statements

The annual financial statements of DekaBank Deutsche Girozentrale for the year ended 31 December 2013 have been prepared in accordance with the provisions of the German Commercial Code (HGB) and the Regulation on Accounting Principles Relating to Financial Institutions and Financial Services Institutions (RechKredV). The provisions of the Pfandbrief Act were also taken into account. The balance sheet structure prescribed for commercial banks was expanded to include line items relating to banks active in the Pfandbrief business.

2 Accounting and valuation methods

General information

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

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

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

Securities lending transactions were reported in accordance with the principles of Section 340b HGB applicable for genuine repurchase agreements, whereby lent securities are shown under the original line items in the balance sheet. Borrowed securities are not reported in the balance sheet.

Valuation of securities portfolios and derivatives

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

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

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

Derivative financial instruments traded on stock markets are essentially valued on the basis of stock market prices. Unlisted products are measured using recognised models such as the Black-Scholes model, Black-76 model, Hull-White one and two factor models, displaced diffusion models or the local volatility model. Models are always calibrated against observable market data.

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

Interest rate swaps and interest rate/currency swap agreements as well as unlisted interest rate futures are measured on the basis of the discounted cash flow model using the market interest rates applying to the remainder of the term of the financial instruments. The tenor structures of the individual interest rates are taken into account by means of separate curves. In the case of euro instruments, discounting is carried out with the EONIA curve, which is also used for bootstrapping of interest rate curves.

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

Fair values of single name and index credit default swaps are determined using a standard hazard rate model calibrated to the respective par CDS spreads. For tranched basket credit swaps, a Gaussian Copula model is used, whose parameters are determined on the basis of iTraxx and CDX index tranche spreads.

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

On-balance sheet and off-balance sheet interest rate financial instruments in the banking book, which are allocated to the interest book, undergo loss-free valuation pursuant to IDW RS BFA 3. Where, in their entirety, the interest book transactions valued pose a threat of excess liability, a provision is recognised for possible losses from pending transactions. The valuation is carried out on the basis of net present values including refinancing, risk and administration costs. There was no excess liability at the reporting date, therefore the recognition of a provision was not required. From the 2013 financial year onwards, realised and accrued interest income and expenses from interest rate swaps are combined per individual transaction and reported either as interest income or interest expenses, whereas these were reported separately in the 2012 financial year.

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

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

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

When valuing OTC derivatives, the Bank also takes Credit Value Adjustments (CVA) or Debit Value Adjustments (DVA) into consideration in order to account for counterparty credit risk or the Bank’s own credit risk, where this has not already been taken into account elsewhere in the valuation model. Where a netting agreement exists for counterparties, the calculation is performed at counterparty level based on the net position; in other cases the calculation is performed on the basis of the gross position.

Fixed assets

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

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

Currency translation

Assets and liabilities in foreign currency as well as claims and commitments from foreign exchange transactions in the non-trading portfolio were translated and valued according to the regulations contained in Section 340h in conjunction with

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

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

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

Provisions for loan losses

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

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

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

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

- default in payment lasting more than 90 days;
- delay or waiver of payment obligations;
- initiation of enforcement measures;
- imminent insolvency or overindebtedness;
- petition for or commencement of insolvency proceedings;
- failure of reorganisation measures.

Provisions

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

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

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

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

Deferred taxes

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

3 Derivative transactions

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

Derivative transactions – volume – trading portfolio

	Nominal values		Full fair values positive market values		Full fair values negative market values	
€m	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**
Interest rate risks OTC products						
Interest rate swaps	378,551.3	316,710.4	5,664.0	7,994.6	4,907.6	6,918.4
Forward Rate Agreements	8,585.0	9,857.0	0.8	0.6	1.0	0.9
Interest rate options						
Purchases	1,885.0	923.8	4.1	22.8	7.4	0.6
Sales	3,767.2	1,755.3	15.2	4.7	49.2	67.0
Caps, floors	2,942.4	2,066.1	16.7	14.5	14.6	8.3
Other interest rate futures	2,569.2	2,382.6	57.5	25.2	134.4	231.9
Stock exchange traded products						
Interest rate futures/options on interest rate futures	21,755.4	20,555.2	2.9	1.0	3.3	4.1
Sub-total	**420,055.5**	**354,250.4**	**5,761.2**	**8,063.4**	**5,117.5**	**7,231.2**
Currency risks OTC products						
Foreign exchange future contracts	4,967.2	4,416.5	97.8	73.4	31.4	40.6
Interest rate/currency swaps	1,420.1	1,382.5	24.0	44.5	27.2	44.6
Sub-total	**6,387.3**	**5,799.0**	**121.8**	**117.9**	**58.6**	**85.2**
Share and other price risks OTC products						
Share forward contracts	84.8	431.9	0.1	43.6	4.5	13.3
Share options						
Purchases	2,334.1	3,285.1	3,076.1	3,083.7	—	—
Sales	1,415.2	1,645.1	—	—	4,006.8	4,218.6
Credit derivatives	9,115.5	11,320.6	96.9	116.2	78.9	107.0
Other forward contracts	1,894.2	2,689.4	5.6	0.9	165.7	93.6
Stock exchange traded products						
Share options	28,746.4	62,453.5	2,346.5	3,706.5	3,657.1	7,566.2
Share futures	447.0	282.0	12.9	2.7	13.2	7.0
Sub-total	**44,037.2**	**82,107.6**	**5,538.1**	**6,953.6**	**7,926.2**	**12,005.7**
Total	**470,480.0**	**442,157.0**	**11,421.1**	**15,134.9**	**13,102.3**	**19,322.1**
Amount carried in balance sheet:			10,952.5	15,131.2	12,651.1	19,311.0

The lower carrying amount of derivatives in the trading portfolio compared with market values is due to the offsetting of market values against the variation margin. On the assets side, the received variation margin reduces market values by a total of €468.6m (previous year: €3.7m). Of this amount, €452.8m relates to interest rate swaps and €15.8m to futures. On the other hand, the paid variation margin reduces market values on the liabilities side by a total of €451.2m (previous year: €11.1m), of which €434.7m relates to interest rate swaps and €16.5m to futures.

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

	Interest rate risks		Currency risks		Share and other price risks	
€m	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Residual term to maturity						
less than 3 months	110,303.6	81,728.7	2,353.4	1,867.5	13,270.7	9,460.1
from 3 months to 1 year	71,072.5	74,113.3	2,682.2	2,582.9	8,193.9	34,683.6
from 1 year to 5 years	133,840.4	127,948.4	532.9	386.7	20,593.3	36,189.9
more than 5 years	104,839.0	70,460.0	818.8	961.9	1,979.3	1,774.0
Total	**420,055.5**	**354,250.4**	**6,387.3**	**5,799.0**	**44,037.2**	**82,107.6**

Derivative transactions – classification by counterparties – trading portfolio

	Nominal values		Full fair values positive market values		Full fair values negative market values	
€m	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Banks in the OECD	229,486.9	292,952.7	7,859.9	7,737.1	8,614.0	7,427.7
Public sector entities in the OECD	9,493.3	8,837.3	260.5	386.0	147.0	114.9
Other counterparties	231,499.8	140,367.0	3,300.7	7,011.8	4,341.3	11,779.5
Total	**470,480.0**	**442,157.0**	**11,421.1**	**15,134.9**	**13,102.3**	**19,322.1**

Derivative transactions – volume – non-trading portfolio

	Nominal values		Full fair values positive market values		Full fair values negative market values	
€m	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Interest rate risks OTC products						
Interest rate swaps	45,442.8	62,623.6	1,231.3	2,630.9	1,271.5	2,767.9
Forward Rate Agreements	—	1,750.0	—	—	—	—
Other interest rate futures	25.0	55.0	0.6	—	—	18.3
Stock exchange traded products						
Interest rate futures/options on interest rate futures	84.2	309.7	0.3	—	—	0.2
Sub-total	**45,552.0**	**64,738.3**	**1,232.2**	**2,630.9**	**1,271.5**	**2,786.4**
Currency risks OTC products						
Foreign exchange future contracts	5,153.9	8,217.7	35.3	34.7	98.5	92.7
Interest rate/currency swaps	6,752.5	8,325.5	333.5	269.6	367.2	701.0
Sub-total	**11,906.4**	**16,543.2**	**368.8**	**304.3**	**465.7**	**793.7**
Share and other price risks OTC products						
Share options						
Purchases	26.1	26.9	3.5	7.2	—	—
Sales	—	—	—	—	—	—
Credit derivatives	581.5	1,117.5	3.1	8.3	3.3	6.4
Other forward contracts	—	—	—	—	—	—
Stock exchange traded products						
Share options	156.8	161.2	1.1	3.6	27.1	30.2
Share futures	38.1	30.3	—	0.2	1.6	0.2
Sub-total	**802.5**	**1,335.9**	**7.7**	**19.3**	**32.0**	**36.8**
Total	**58,260.9**	**82,617.4**	**1,608.7**	**2,954.5**	**1,769.2**	**3,616.9**

Derivatives in the non-trading portfolio are generally valued individually in line with the imparity principle. Provisions for possible losses from pending derivative transactions are generally created by recognition of negative market values, on the other hand a claim surplus is not capitalised. Derivatives allocated to the interest book undergo loss-free valuation pursuant to IDW RS BFA 3 together with other financial instruments of the interest book. Against this background, the above-mentioned market values are not the carrying values of derivatives in the non-trading portfolio. Paid or received option premiums and margins for derivative financial instruments of the non-trading portfolio are recognised under other assets or other liabilities. Furthermore, a provision for possible losses in the amount of €17.6m was recognised as at the reporting date.

Under EU Regulation No. 648/2012 (EMIR), since 2012 there has been a requirement to perform certain OTC derivate transactions through a central counterparty. The daily settlement of gains and losses to be carried out in this process (variation margin) results in a net liability for the non-trading portfolio of €8.1m. This is recognised in amounts due to banks.

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

	Interest rate risks		Currency risks		Share and other price risks	
€m	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**
Residual term to maturity						
less than 3 months	18,287.3	13,596.2	2,321.9	5,773.5	73.1	90.3
from 3 months to 1 year	4,265.9	17,627.1	4,219.8	4,312.9	381.5	135.0
from 1 year to 5 years	15,764.3	24,269.9	4,771.8	4,523.3	247.9	928.6
more than 5 years	7,234.5	9,245.1	592.9	1,933.5	100.0	182.0
Total	**45,552.0**	**64,738.3**	**11,906.4**	**16,543.2**	**802.5**	**1,335.9**

Derivative transactions – classification by counterparties – non-trading portfolio

	Nominal values		Full fair values positive market values		Full fair values negative market values	
€m	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**
Banks in the OECD	33,119.4	67,937.8	1,386.8	2,552.5	1,565.7	3,250.2
Public sector entities in the OECD	380.7	731.9	18.9	41.1	17.6	22.5
Other counterparties	24,760.8	13,947.7	203.0	360.9	185.9	344.2
Total	**58,260.9**	**82,617.4**	**1,608.7**	**2,954.5**	**1,769.2**	**3,616.9**

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

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

Name, location	**Equity interest in %**	**Equity [1] €'000**	**Result [2] €'000**
Shares in affiliated companies			
DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg	100.00	585,887.2	162,066.0
Deka Investment GmbH, Frankfurt/Main	100.00	83,174.4	108,186.7 [3]
Deka Immobilien GmbH, Frankfurt/Main	100.00	38,764.7	30,665.4 [3]
Deka(Swiss) Finanz AG, Zurich (formerly: Deka(Swiss) Privatbank AG, Zurich)	100.00	33,771.7	–14,826.9
Deka Immobilien Investment GmbH, Frankfurt/Main	100.00	31,245.1	28,451.6 [3]
Deka Grundstücksverwaltungsgesellschaft I (GbR), Frankfurt/Main	100.00	19,972.5	1,349.8
Deka Real Estate Lending k.k., Tokyo	100.00	2,612.6	568.6
Gesellschaft für Mittelstandskreditfonds der Sparkassen-Finanzgruppe mbH, Frankfurt/Main	100.00	1,765.2	377.5
Deutsche Landesbankenzentrale AG, Berlin	100.00	1,513.4	18.2
Deka Beteiligungsgesellschaft mbH, Frankfurt/Main	100.00	1,026.3	24.6

Name, location	Equity interest in %	Equity [1] €'000	Result [2] €'000
Deka Investors Investment AG (Teilgesellschaftsvermögen Unternehmensaktien), Frankfurt/Main	100.00	290.1	– 3.7
DKC Deka Kommunal Consult GmbH, Düsseldorf	100.00	203.2	–918.7 [3]
Deka Treuhand GmbH, Frankfurt/Main	100.00	71.2	7.2
Deka Vermögensverwaltungs GmbH, Frankfurt/Main	100.00	65.4	–0.5 [3]
Privates Institut für quantitative Kapitalmarktforschung der DekaBank GmbH, Frankfurt/Main	100.00	50.0	0.0
STIER Immobilien AG, Frankfurt/Main	100.00	49.4	0.0
LBG Leasing Beteiligungs-GmbH, Frankfurt/Main	100.00	32.1	–0.1
Deka Treuhand Erwerbsgesellschaft mbH, Frankfurt/Main	100.00	25.0	–7.1 [3]
Deka Vorratsgesellschaft 01 mbH, Frankfurt/Main	100.00	25.0	–0.3 [3]
Deka Verwaltungs GmbH, Frankfurt/Main	100.00	22.6	0.1
WestInvest Gesellschaft für Investmentfonds mbH, Düsseldorf	99.74	11,338.6	5,609.8 [3]
WIV GmbH & Co. Beteiligungs KG, Frankfurt/Main	94.90	12,858.5	758.5
WIV Verwaltungs GmbH, Frankfurt/Main	94.90	57.7	2.2
Equity investments			
S PensionsManagement GmbH, Cologne	50.00	115,221.8	764.3
Deka-Neuburger Institut für wirtschaftsmathematische Beratung GmbH, Frankfurt/Main	50.00	16.2	–2.3
Dealis Fund Operations GmbH, Frankfurt/Main	49.90	15,271.1	–5,485.0
S Broker AG & Co. KG, Wiesbaden	30.64	27,806.9	151.9
Indirect equity investments			
Deka International S.A., Luxembourg	100.00	175,791.4	98,328.0
International Fund Management S.A., Luxembourg	100.00	23,187.3	13,528.0
Roturo S.A., Luxembourg	100.00	11,043.8	6,652.1
VM Bank International S.A. i.L., Luxembourg	100.00	6,551.2	–2,720.8
Deka Immobilien Luxembourg S.A., Luxembourg	100.00	542.4	–125.0
Deka Immobilien Beteiligungsgesellschaft mbH, Frankfurt/Main	100.00	145.5	2.8
Datogon S.A., Luxembourg	100.00	39.9	2.0
Perfeus S.A., Luxembourg	100.00	33.6	–7.6
Europäisches Kommunalinstitut S.à r.l., Luxembourg	100.00	15.5	0.1
Sparkassen Pensionskasse AG, Cologne	50.00	75,207.6	3,618.7
Sparkassen Pensionsfonds AG, Cologne	50.00	7,965.0	–468.8
Sparkassen PensionsBeratung GmbH i.L., Cologne	50.00	100.0	0.0
Heubeck AG, Cologne	45.00	5,299.4	1,139.0
Compendata Gesellschaft zur Verwaltung von Vorsorgeeinrichtungen mbh, Cologne	45.00	124.7	34.5
Dr. Heubeck Ges. mbH, Vienna	45.00	90.2	21.2
Heubeck Richttafeln GmbH, Cologne	45.00	75.9	50.3
Richttafeln-Unterstützungskasse GmbH, Cologne	45.00	58.3	1.8
S Broker Management AG, Wiesbaden	30.64	75.6	24.3
HEUBECK-FERI Pension Asset Consulting GmbH, Bad Homburg v.d.H.	22.50	296.8	87.0

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

Off-balance sheet contingent liabilities

5 **Letter of comfort**

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

6 Other financial commitments

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

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

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

There is an additional funding obligation for the security reserve of the *Landesbanken* and *Girozentralen* of €41.6m (previous year: €67.9m).

Notes to the balance sheet

7 Due from banks

€m	31.12.2013	31.12.2012
This item includes:		
Loans to		
affiliated companies	530.2	255.9
companies in which an interest is held	1.5	–
Subordinated loans	–	–
Sub item b. (other claims) – breaks down according to residual term to maturity as follows:		
less than three months	2,189.5	2,811.8
from three months to one year	2,609.1	3,371.6
from one year to five years	10,831.4	11,324.6
more than five years	954.7	1,677.3
	16,584.7	**19,185.3**
Used as cover funds	**5,582.5**	**8,155.5**

8 Due from customers

€m	31.12.2013	31.12.2012
This item includes:		
Loans to		
affiliated companies	153.0	152.8
companies in which an interest is held	59.7	62.9
Subordinated loans	–	–
This item breaks down by residual term to maturity as follows:		
with indefinite term to maturity	308.0	123.8
less than three months	793.8	1,357.8
from three months to one year	1,770.5	1,795.5
from one year to five years	8,368.9	10,016.7
more than five years	3,873.7	4,811.1
	15,114.9	**18,104.9**
Used as cover funds	**4,203.6**	**4,592.0**

9 Bonds and other fixed-interest securities

€m	31.12.2013	31.12.2012
The marketable securities comprising this item include:		
listed	14,231.5	13,438.5
unlisted	1,967.3	1,736.8
Subordinated securities	**27.8**	**29.1**
Due within one year	**1,435.9**	**1,394.2**
Used as cover funds	**1,604.8**	**2,344.4**
Book value of securities valued according to the diluted lower of cost or market principle	3,531.0	3,792.2
Book value of securities reported at more than fair value	644.6	1,611.3
Market value of securities reported at more than fair value	618.3	1,560.1

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

10 Shares and other non-fixed interest securities

€m	31.12.2013	31.12.2012
The marketable securities comprising this item include:		
listed	0.0	0.0
unlisted	907.3	914.9
Subordinated securities	**5.2**	–

11 Trading portfolio (assets)

This item breaks down as follows:

€m	31.12.2013	31.12.2012
Derivative financial instruments	10,952.6	15,131.2
Receivables	25,971.1	23,337.4
Bonds and other fixed-interest securities	21,300.2	25,316.1
Shares and other non fixed-interest securities	2,450.2	1,249.9
Other assets	1.2	0.0
Risk mark-down	– 25.7	– 24.9
	60,649.6	**65,009.8**

12 Equity investments

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

13 Shares in affiliated companies

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

14 Trust assets

The reported trust assets comprise amounts due from banks of €79.4m and amounts due from customers of €96.5m.

15 Tangible assets

€m	31.12.2013	31.12.2012
This item includes:		
Land and buildings used for the Bank's business activities	2.7	2.8
Office equipment	15.0	15.4

16 Changes in fixed assets

€m						Book value	
Asset items	**Cost of acquisition/ production**	**Additions**	**Disposals**	**Accumulated depreciation/ amortisation**	**Depreciation/ amortisation for the year**	**31.12.2013**	**31.12.2012**
		Changes +/- [1]					
Equity investments			–1.6			62.2	63.8
Shares in affiliated companies			0.0			368.2	368.2
Securities held as fixed assets			–261.2			3,531.0	3,792.2
Intangible assets	113.4	7.2	0.7	87.8	15.4	32.1	41.0
Tangible assets	62.4	1.0	0.7	45.0	1.4	17.7	18.2
Total						**4,011.2**	**4,283.4**

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

17 Other assets

€m	31.12.2013	31.12.2012
This item includes amongst others:		
Tax refund claims	162.9	88.0
Premiums paid and margins for derivative financial instruments	15.4	14.4
Overpaid profit shares of the atypical silent partners	20.3	18.6

18 Prepaid expenses and accrued income

€m	31.12.2013	31.12.2012
This item includes:		
Premium/discount from underwriting and lending business	17.4	26.7
Prepaid expenses and accrued income – derivative financial instruments	7.4	8.2

19 Genuine repurchase agreements

As at 31 December 2013, the book value of lent securities or securities sold under repurchase agreements amounts to €2,707.2m (previous year: €4,471.2m). Pass-through securities lending transactions of €7,248.4m (previous year: €5,295.2m) were also carried out.

20 Collateral transfer for own liabilities

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

€m	31.12.2013	31.12.2012
Due to banks	301.1	747.1
Due to customers	186.4	150.0
Trading portfolio (liabilities)	20,773.5	4,030.9

The collateral was provided mainly for borrowings as part of genuine repurchase agreements and for open market transactions with Deutsche Bundesbank. In addition, securities with a book value of €1,532.6m (previous year: €3,706.7m) were pledged as collateral for transactions on German and foreign futures exchanges.

21 Investment Shares

€m	Book value 31.12.2013	Market value 31.12.2013	Difference market value – book value	Distribution 2013	Daily redemption possible	Omitted depreciation
Equity funds	230.3	272.9	42.6	0.4	Yes	No
Bond funds	1,334.3	1,336.6	2.3	20.1	Yes	No
Mixed funds	2,704.6	2,937.8	233.2	50.9	Yes	No
Funds of funds	3.1	3.3	0.2	0.0	Yes	No
Other funds	380.5	393.8	13.3	3.3	No	No
Total	**4,652.8**	**4,944.4**	**291.6**			

22 Due to banks

€m	31.12.2013	31.12.2012
This item includes:		
Liabilities to		
affiliated companies	3,065.5	4,462.7
companies in which an interest is held	0.0	5.3
Sub item b (with agreed maturity or period of notice) breaks down by residual term to maturity as follows:		
less than three months	6,949.4	8,602.1
from three months to one year	6,463.2	3,714.2
from one year to five years	2,808.5	2,778.3
more than five years	1,723.4	1,544.5
	17,944.5	**16,639.1**

23 Due to customers

€m	31.12.2013	31.12.2012
This item includes:		
Liabilities to		
affiliated companies	274.0	274.7
companies in which an interest is held	166.5	92.6
Sub item b (with agreed maturity or period of notice) breaks down by residual term to maturity as follows:		
less than three months	3,276.9	2,950.7
from three months to one year	2,174.3	3,074.6
from one year to five years	3,704.8	4,978.1
more than five years	2,996.4	3,367.5
	12,152.4	**14,370.9**

24 Securitised liabilities

€m	31.12.2013	31.12.2012
Proportion of sub item a (issued bonds) maturing in the following year	**4,818.7**	**7,091.1**
Sub item b (other securities liabilities) breaks down by residual term to maturity as follows:		
less than three months	4,821.1	5,815.9

25 Trading portfolio (liabilities)

This item breaks down as follows:

€m	31.12.2013	31.12.2012
Derivative financial instruments	12,651.1	19,311.0
Liabilities	32,619.6	32,780.0
	45,270.7	**52,091.0**

26 Trust liabilities

Trust liabilities comprise €79.4m in amounts due to banks and €96.5m in amounts due to customers.

27 Other liabilities

€m	31.12.2013	31.12.2012
This item includes:		
Bonuses for sales offices	51.8	64.9
Trade payables	35.0	41.6
Premiums received and margins for derivative financial instruments	30.5	31.1
Due to custodial customers	11.6	2.4
Foreign exchange equalisation items	6.6	402.3
Interest on participating certificates	1.3	1.3

28 Provisions for pensions and similar commitments

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

in %	31.12.2013
Pension trend for adjustments according to Section 16 (2) Company Pensions Fund Act (BetrAVG)	2.00
Pension adjustment with overall trend updating	2.50
Salary trend	2.50

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

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

Provisions for pensions and similar commitments are discounted at the average market interest rate of the past seven years published by Deutsche Bundesbank for an assumed residual time to maturity of 15 years. This interest rate stands at 4.89%.

€m	31.12.2013
Pension provisions	**4.2**
Acquisition cost of plan assets	249.5
Fair value of plan assets	310.2
Settlement amount of offset liabilities	309.0
Income from plan assets	18.8
Expenses for adding interest	13.5
Excess of plan assets over pension liabilities	**5.4**

The valuation of cover assets at fair value produces an amount that exceeds the historical cost of these assets of €60.7m, which is not blocked for distribution in accordance with Section 268 (8) HGB, since the free reserves of the company exceed this figure.

29 Accruals and deferred income

€m	31.12.2013	31.12.2012
This item includes:		
Premiums/discounts from underwriting and lending business	10.9	16.6
Accruals and deferred income – derivative financial instruments	6.1	8.1

30 Subordinated liabilities

€m	31.12.2013	31.12.2012
Expenses from subordinated liabilities	36.3	41.7
Accrued interest on subordinated liabilities	18.9	18.7

Borrowings structured as follows:	Currency	Amount €m	Interest rate	Matures on
Bonds				
	EUR	300.0	5.38%	31.01.2014
	EUR	300.0	4.63%	21.12.2015
	EUR	5.0	4.00%	27.12.2023
	EUR	5.0	4.70%	19.12.2033
Registered bonds				
	EUR	15.0	4.00%	19.12.2023
	EUR	5.0	3.98%	19.12.2023
	EUR	12.7	4.13%	19.12.2024
	EUR	5.0	4.26%	19.12.2025
	EUR	13.6	4.52%	19.12.2028
	EUR	20.0	4.52%	20.12.2028
	EUR	6.0	4.48%	22.12.2028
	EUR	12.5	4.50%	22.12.2028
	EUR	13.0	4.75%	19.12.2033
Promissory note loans				
	EUR	40.0	4.43%	11.04.2016
	EUR	75.0	6.00%	05.07.2019

The subordinated liabilities comply with the requirements of Section 10 (5a) of the German Banking Act (KWG) for the assignment of liable equity. The conversion of these funds into capital or any other form of debt has not been agreed or planned. DekaBank has no obligation to make an early repayment. As at the reporting date, subordinated liabilities of €469.8m meet the criteria for recognition as liable equity under Section 10 KWG.

31 Equity

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

€m	31.12.2013	31.12.2012
a) Subscribed capital		
Subscribed capital	191.7	191.7
Typical silent capital contributions	500.0	500.0
Atypical silent capital contributions	52.4	52.4
b) Capital reserves	189.4	189.4
c) Retained earnings		
Reserves required by the Bank's statutes	51.3	51.3
Other retained earnings	114.1	114.1
Balance sheet equity	**1,098.9**	**1,098.9**

In 2002, typical silent capital contributions (tranche II) with a nominal amount of €500m were accepted for an indefinite period of time (so-called "perpetuals"). DekaBank may only terminate these contributions, with the consent of the Federal Financial Supervisory Authority (BaFin) and a notice period of 24 months to at the end of a financial year. Termination by the silent partners is excluded. Interest expenses for perpetuals amounted to €19.6m (previous year: €27.8m) and are reported in net interest income.

32 Contingent and other liabilities

The off-balance sheet contingent liabilities amounting to €2,110.5m include guarantees and sureties as well as liabilities under CDS transactions as protection seller. The item primarily includes liabilities arising from warranty obligations in the amount of €1,502.6m (previous year: €1,237.0m). There are also irrevocable loan commitments of €826.9m. Based on the credit rating analyses carried out, it can essentially be assumed that borrowers will meet their commitments and no utilisation is therefore expected. Loan provisions were recognised in individual cases where the default of the borrower is likely.

33 Foreign currency volumes

€m	31.12.2013	31.12.2012
Foreign currency assets	10,922.8	12,470.7
Foreign currency liabilities	6,274.1	6,303.2

Notes to the income statement

34 Net income from the trading portfolio

€25.3m (previous year: €32.8m) of the net income from the trading portfolio totalling €227.7m (previous year: €295.2m) was transferred to the fund for general banking risks in the reporting year.

35 Other operating income

Other operating income consists mainly of €260.9m from Group offsetting, €24.3m from the reversal of provisions (including interest effect) and €28.4m being the result from currency translation of the non-trading portfolio.

36 Other operating expenses

This item includes €120.3m in transfers to provisions (including interest effect) and €7.6m from Group offsetting. It also includes €39.5m relating to the payment of a strategic premium to Landesbank Berlin. The premium was paid in connection with the 2013 acquisition of the customer-oriented capital market business (k-KMG) of Landesbank Berlin.

37 Auditor's fees

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

38 Income taxes

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

The applicable combined tax rate (trade tax plus corporation tax and solidarity surcharge) therefore totals to 31.90%.

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

39 Management and intermediary services provided for third parties

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

Information relating to Pfandbrief business

40 Calculation of cover for mortgage and public sector lending business

Mortgage Pfandbriefe

Total amounts by nominal value and net present value

	Nominal value		Net present value		Risk-adjusted present value + 250 BP		Risk-adjusted present value – 250 BP	
€m	2013	2012	2013	2012	2013	2012	2013	2012
Outstanding mortgage Pfandbriefe	85.0	35.0	85.9	35.9	80.9	35.2	91.9	36.7
Cover pool mortgage Pfandbriefe	273.3	200.0	288.5	214.6	276.3	205.4	303.6	226.5
Overcollateralization	188.3	165.0	202.6	178.7	195.4	170.2	211.7	189.8

Maturity structure

Maturity ranges	Less than 1 Year		From 1 year to 2 years		From 2 years to 3 years		From 3 years to 4 years	
€m	2013	2012	2013	2012	2013	2012	2013	2012
Outstanding mortgage Pfandbriefe	0.0	10.0	0.0	0.0	30.0	0.0	55.0	20.0
Cover pool mortgage Pfandbriefe	23.7	32.8	120.2	23.7	0.0	103.5	60.1	0.0

Maturity ranges	From 4 years to 5 years		From 5 years to 10 years		More than 10 years		Total	
€m	2013	2012	2013	2012	2013	2012	2013	2012
Outstanding mortgage Pfandbriefe	0.0	5.0	0.0	0.0	0.0	0.0	85.0	35.0
Cover pool mortgage Pfandbriefe	29.3	0.0	40.0	40.0	0.0	0.0	273.3	200.0

Total amount of additional cover pool assets

€m	2013	2012
Additional cover pool assets in accordance with Section 19 (1) No.s 2 and 3 PfandbG	48.7	48.7

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

N.B. The net present value is calculated in accordance with the static approach pursuant to the Pfandbrief Net Present Value Directive (PfandBarwertV).

Breakdown of cover pool assets by country by size

Total amounts	Less than 0.3m [1]		From 0.3m to 5m [1]		> 5m [1]		Other cover		Total	
€m	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Federal Republic of Germany	0.0	0.0	1.3	1.3	116.4	82.8	48.7	48.7	166.4	132.8
France	0.0	0.0	0.0	0.0	106.9	67.2	0.0	0.0	106.9	67.2
Total	**0.0**	**0.0**	**1.3**	**1.3**	**223.3**	**150.0**	**48.7**	**48.7**	**273.3**	**200.0**

[1] Secured by mortgages

Breakdown of cover pool assets by type of use

	Federal Republic of Germany		France		Total	
Total amounts	2013	2012	2013	2012	2013	2012
Commercial use	117.7	84.1	106.9	67.2	224.6	151.3
Other cover	48.7	48.7	0.0	0.0	48.7	48.7
Total	**166.4**	**132.8**	**106.9**	**67.2**	**273.3**	**200.0**

Breakdown of cover pool assets by type of building

	Federal Republic of Germany		France		Total	
Total amounts	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Office buildings	19.0	43.9	106.9	67.2	125.9	111.1
Retail buildings	64.3	25.2	0.0	0.0	64.3	25.2
Other commercial buildings	34.4	15.0	0.0	0.0	34.4	15.0
Other cover	48.7	48.7	0.0	0.0	48.7	48.7
Total	**166.4**	**132.8**	**106.9**	**67.2**	**273.3**	**200.0**

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

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

As in the previous year, no foreclosure sales were carried out in financial year 2013.

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

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

Public sector Pfandbriefe

Total amounts by nominal value and present value

	Nominal value		Present value		Risk-adjusted present value + 250 BP		Risk-adjusted present value – 250 BP	
€m	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Outstanding public sector Pfandbriefe	7,582.6	12,980.6	8,252.0	14,073.6	7,855.2	13,455.6	8,949.2	14,984.0
Cover pool public sector Pfandbriefe	11,117.6	14,892.0	11,829.7	16,078.5	11,317.1	15,309.6	12,274.3	16,732.8
Overcollateralization	3,535.0	1,911.4	3,577.7	2,004.9	3,461.9	1,854.0	3,325.1	1,748.8

Maturity structure

Maturity ranges	Less than 1 year		From 1 year to 2 years		From 2 years to 3 years		From 3 years to 4 years	
€m	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Outstanding public sector Pfandbriefe	3,126.8	5,653.7	1,576.9	3,133.3	199.7	1,379.8	338.4	199.7
Cover pool public sector Pfandbriefe	3,177.5	3,019.9	3,841.8	3,081.0	382.0	4,064.4	464.8	357.6

Maturity ranges	From 4 years to 5 years		From 5 years to 10 years		More than 10 years		Total	
€m	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Outstanding public sector Pfandbriefe	457.9	338.9	1,311.6	1,621.8	571.3	653,4	7,582.6	12,980.6
Cover pool public sector Pfandbriefe	885.7	670.4	1,599.0	2,601.9	766.8	1,096.8	11,117.6	14,892.0

Total amount of additional cover pool assets

€m	**2013**	**2012**
Additional cover pool assets in accordance with Section 20 (2) No 2 PfandbG	315.0	775.0

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

N.B. The net present value is calculated in accordance with the static approach pursuant to the Pfandbrief Net Present Value Directive (PfandBarwertV).

Distribution of cover pool assets

Total nominal value of cover pool assets by country / type	Sovereign		Regional authorities		Local authorities		Other debtors		Total	
€m	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Federal Republic of Germany	139.6	176.0	1,653.7	2,106.4	477.7	359.3	7,925.2	10,740.6	10,196.2	13,382.3
Finland	0.0	0.0	0.0	0.0	0.0	21.0	0.0	0.0	0.0	21.0
Canada	0.0	0.0	61.9	64.7	0.0	0.0	35.5	37.1	97.4	101.8
Latvia	0.0	0.0	0.0	0.0	41.0	43.7	0.0	0.0	41.0	43.7
Austria	0.0	0.0	0.0	0.0	0.0	0.0	0.0	125.0	0.0	125.0
Poland	118.8	154.0	0.0	0.0	0.0	0.0	71.1	82.9	189.9	236.9
Slovakia	5.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	5.0	5.0
Spain	0.0	0.0	3.6	17.9	0.0	0.0	0.0	3.5	3.6	21.4
United States of America	0.0	0.0	0.0	0.0	0.0	0.0	430.5	545.4	430.5	545.4
United Kingdom of Great Britain and Northern Ireland	0.0	0.0	0.0	0.0	0.0	0.0	154.0	409.5	154.0	409.5
Total	**263.4**	**335.0**	**1,719.2**	**2,189.0**	**518.7**	**424.0**	**8,616.3**	**11,944.0**	**11,117.6**	**14,892.0**

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

Other information

41 Related party disclosures

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

42 Average number of staff

Number	2013			2012		
	Male	Female	Total	Male	Female	Total
Full-time employees	1,450	644	2,094	1,449	658	2,107
Part-time and temporary employees	82	335	417	67	316	383
	1,532	**979**	**2,511**	**1,516**	**974**	**2,490**

43 Remuneration of Board members

€	2013	2012
Remuneration of active Board members		
Board of Management	4,390,716	3,022,589
Administrative Board	640,167	656,000
Remuneration paid to former Board members and surviving dependants		
Board of Management	7,812,095	2,454,892
Provisions for pension commitments to these persons	39,812,345	34,922,361

The remuneration for members of the Board of Management indicated above comprises all remuneration paid and benefits in kind in the respective financial year, including variable components relating to previous years and are therefore dependent on business performance in earlier periods.

In financial year 2013, variable remuneration elements in the amount of €2.7m (previous year: €2.3m) were committed to active and former members of the Board of Management, which are dependent on future performance. Variable remuneration components that were not paid out in the year of the commitment depend on the sustainable performance of the Deka Group and are deferred until the three years following the commitment year. The sustainable components of remuneration granted are subject to a two-year holding period and are paid out after that period has elapsed. Distributable earnings, corporate value, the economic result, payments to savings bank alliance partners, net sales performance and the individual contribution of the Board Members are used to determine sustainability. Short-term benefits due to active members of the Board of Management include variable remuneration components of €0.5m from the 2013 commitment year, €0.2m from the 2012 commitment year and €0.3m from the 2011 commitment year.

44 Loans to Board members

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

Seats on supervisory bodies

45 Notes to seats on supervisory bodies (as at 31.01.2014)

Michael Rüdiger (Chairman of the Board of Management)		
Member of the Supervisory Board (from 01.01.2013 to 06.01.2013) Chairman of the Supervisory Board (from 07.01.2013 to 31.12.2013)	Deutsche Landesbankenzentrale AG	Berlin
Member of the Supervisory Board (from 11.03.2013)	Evonik Industries AG	Essen
Member of the Administrative Board (from 18.03.2013 to 05.05.2013) Chairman of the Administrative Board (from 06.05.2013)	Liquiditäts-Konsortialbank GmbH	Frankfurt/Main
Member of the Administrative Board (from 16.11.2013)	Gesellschaft für Mittelstandskreditfonds der Sparkassen-Finanzgruppe mbH	Frankfurt/Main
Member of the Supervisory Board (from 01.01.2014 to 14.01.2014) Deputy Chairman of the Supervisory Board (from 15.01.2014)	Deka Investment GmbH	Frankfurt/Main
Member of the Supervisory Board (from 01.01.2014)	Deka Immobilien Investment GmbH	Frankfurt/Main
Member of the Supervisory Board (from 01.01.2014)	WestInvest Gesellschaft für Investmentfonds mbH	Düsseldorf
Member of the Administrative Board (from 01.01.2014)	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Member of the Supervisory Board (from 01.01.2014)	Landesbank Berlin Investment GmbH	Berlin
Member of the Supervisory Board (from 01.01.2014)	Deka Immobilien GmbH	Frankfurt/Main

Oliver Behrens (Deputy Chairman of the Board of Management)		
Chairman of the Supervisory Board	Deka Investment GmbH	Frankfurt/Main
Chairman of the Supervisory Board	Sparkassen Pensionsfonds AG	Cologne
Chairman of the Supervisory Board (until 15.07.2013)	ETFlab Investment GmbH[1]	Munich
Chairman of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Chairman of the Administrative Board	Deka(Swiss) Finanz AG (until 31.12.2013: Deka(Swiss) Privatbank AG)	Zurich, Switzerland
Deputy Chairman of the Supervisory Board	S PensionsManagement GmbH	Cologne
Deputy Chairman of the Supervisory Board	Sparkassen Pensionskasse AG	Cologne
Deputy Chairman of the Supervisory Board	S Broker AG & Co. KG	Wiesbaden
Deputy Chairman of the Supervisory Board	S Broker Management AG	Wiesbaden
Member of the Shareholder Committee	Dealis Fund Operations GmbH	Frankfurt/Main
Member of the Supervisory Board (from 01.01.2014)	Landesbank Berlin Investment GmbH	Berlin
Managing Director	OncamB Vermögensverwaltungsgesellschaft mbH	Bad Soden am Taunus

[1] The company was merged with Deka Investment GmbH

Dr. Matthias Danne (Member of the Board of Management)		
Chairman of the Supervisory Board	Deka Immobilien Investment GmbH	Frankfurt/Main
Chairman of the Supervisory Board	WestInvest Gesellschaft für Investmentfonds mbH	Düsseldorf
Chairman of the Supervisory Board	Deka Immobilien GmbH	Frankfurt/Main
Chairman of the Supervisory Board	STIER Immobilien AG	Frankfurt/Main
Deputy Chairman of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Managing Director	Deka Treuhand Erwerbsgesellschaft mbH	Frankfurt/Main

Martin K. Müller (Member of the Board of Management from 01.05.2013)		
Member of the Supervisory Board (from 01.01.2014)	Landesbank Berlin Investment GmbH	Berlin
Member of the Supervisory Board (from 01.01.2014)	SIZ GmbH (formerly: SIZ Informatikzentrum der Sparkassenorganisation GmbH)	Bonn
Member of the Shareholder Committee (from 01.01.2014)	Dealis Fund Operations GmbH	Frankfurt/Main
Managing Director (from 01.01.2014)	Deka Treuhand Erwerbsgesellschaft mbH	Frankfurt/Main

Dr. h. c. Friedrich Oelrich (Member of the Board of Management until 31.12.2013)		
Deputy Chairman of the Supervisory Board (until 31.12.2013)	Deka Investment GmbH	Frankfurt/Main
Deputy Chairman of the Supervisory Board (until 15.07.2013)	ETFlab Investment GmbH[1)]	Munich
Deputy Chairman of the Supervisory Board (until 31.12.2013)	Deka Immobilien Investment GmbH	Frankfurt/Main
Deputy Chairman of the Supervisory Board (until 31.12.2013)	WestInvest Gesellschaft für Investmentfonds mbH	Düsseldorf
Deputy Chairman of the Supervisory Board (until 31.12.2013)	SIZ Informatikzentrum der Sparkassenorganisation GmbH	Bonn
Deputy Chairman of the Supervisory Board (until 31.12.2013)	Deutsche Landesbankenzentrale AG	Berlin
Member of the Supervisory Board (until 31.12.2013)	Sparkassen Rating und Risikosysteme GmbH	Berlin
Member of the Administrative Board (until 31.12.2013)	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Member of the Administrative Board (until 31.12.2013)	Deka(Swiss) Privatbank AG	Zurich, Switzerland
Member of the Shareholder Committee (until 31.12.2013)	Dealis Fund Operations GmbH	Frankfurt/Main
Managing Director (until 31.12.2013)	Deka Treuhand Erwerbsgesellschaft mbH	Frankfurt/Main
Member of the Advisory Board (until 31.12.2013)	VÖB-Service GmbH	Bonn

[1)] The company was merged with Deka Investment GmbH

Dr. Georg Stocker (Member of the Board of Management)		
Deputy Chairman of the Supervisory Board	Deka Immobilien GmbH	Frankfurt/Main
Member of the Supervisory Board (until 15.11.2013)	Gesellschaft für Mittelstandskreditfonds der Sparkassen-Finanzgruppe mbH	Frankfurt/Main
Member of the Supervisory Board (from 01.01.2013)	S Broker AG & Co. KG	Wiesbaden
Member of the Supervisory Board	S PensionsManagement GmbH	Cologne
Member of the Supervisory Board	Sparkassen Pensionsfonds AG	Cologne
Member of the Supervisory Board	Sparkassen Pensionskasse AG	Cologne
Member of the Supervisory Board (until 31.12.2013)	Deutsche Landesbankenzentrale AG	Berlin
Member of the Administrative Board	Deka(Swiss) Finanz AG (until 31.12.2013: Deka(Swiss) Privatbank AG)	Zurich, Switzerland

Board members of DekaBank Deutsche Girozentrale

46 Notes to the Board members of DekaBank Deutsche Girozentrale (as at 31.01.2014)

Board of Management
Michael Rüdiger
Chairman of the Board of Management

Oliver Behrens
Deputy Chairman of the Board of Management

Dr. Matthias Danne
Member of the Board of Management

Martin K. Müller
Member of the Board of Management
(from 01.05.2013)

Dr. h. c. Friedrich Oelrich
Member of the Board of Management
(until 31.12.2013)

Dr. Georg Stocker
Member of the Board of Management

Administrative Board
Georg Fahrenschon
Chairman
President of the German Savings Banks and Giro Association e.V.

Helmut Schleweis
First Deputy Chairman (until 31.12.2013)
Member (from 01.01.2014 to 15.01.2014)
First Deputy Chairman (from 16.01.2014)
Chairman of the Management Board
of Sparkasse Heidelberg

Thomas Mang
Second Deputy Chairman (until 31.12.2013)
Member (from 01.01.2014 to 15.01.2014)
Second Deputy Chairman (from 16.01.2014)
President of the Savings Banks Association
of Lower Saxony

Additional representatives elected by the Shareholders' Meeting
Reinhard Boll
(from 01.10.2013)
President of the Savings Banks and Giro Association of
Schleswig-Holstein

Michael Bräuer
(from 01.01.2014)
Chairman of Sparkasse Oberlausitz-Niederschlesien

Michael Breuer
President of the Rhineland Savings Banks
and Giro Association

Carsten Claus
(from 06.12.2013)
Chairman of the Management Board
of Kreissparkasse Böblingen

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

Dr. Rolf Gerlach
President of the Savings Banks Association
Westphalia-Lippe

Volker Goldmann
Chairman of the Management Board
of Sparkasse Bochum

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

Reinhard Henseler
(until 31.03.2013)
Chairman of the Management Board
of Nord-Ostsee-Sparkasse

Walter Kleine
Chairman of the Management Board
of Sparkasse Hannover

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

Harald Menzel
(until 31.12.2013)
Chairman of the Management Board
of Sparkasse Mittelsachsen

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

Eugen Schäufele
(until 05.12.2013)
Chairman of the Management Board
of Kreissparkasse Reutlingen

Siegmund Schiminski
(until 31.08.2013)
Chairman of the Management Board
of Sparkasse Bayreuth

Peter Schneider
President of the Savings Banks Association
Baden-Württemberg

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

Walter Stromaier
(from 01.10.2013)
Chairman of the Management Board
of Sparkasse Niederbayern-Mitte

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

Johannes Werner
Chairman of the Management Board
of Mittelbrandenburgischen Sparkasse
in Potsdam

Alexander Wüerst
Chairman of the Management Board
of Kreissparkasse Cologne

Theo Zellner
President of the Savings Banks Association Bavaria

Employee representatives appointed by the Staff Committee
Michael Dörr
Chairman of the Staff Committee
of DekaBank Deutsche Girozentrale

Erika Ringel
(from 01.01.2014)
Member of the Staff Committee
of DekaBank Deutsche Girozentrale

Heike Schillo
(until 31.12.2013)
Sales – Savings Banks South
DekaBank Deutsche Girozentrale

Representatives appointed by the Federal Organisation of Central Municipal Organisations
Dr. Stephan Articus
Managing Member of the Presiding Board
of the German Association of Cities

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

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

Assurance of the Board of Management

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

Frankfurt/Main, 21 February, 2014

DekaBank
Deutsche Girozentrale

The Board of Management

Rüdiger Behrens Dr. Danne

Müller Dr. Stocker

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the DekaBank Deutsche Girozentrale AöR, Berlin/Frankfurt for the business year from January 1, 2013 to December 31, 2013. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Frankfurt/Main, 25 February, 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft

Pukropski	Fox
Wirtschaftsprüfer	Wirtschaftsprüfer

Glossary

Added value contribution
Sum of economic result and payments to the alliance partners. The added value contribution is an indicator of the added value that the Deka Group generates for the savings banks which are its owners.

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

Advisory/management mandate
External fund which is managed by an investment company (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 regulations in advance. For management mandates, however, investment decisions are made, verified and implemented by the KVG of the Deka Group. For asset management mandates, investors' assets are managed in line with their individual investment goals and in compliance with all restrictions following the conclusion of an asset management contract.

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

Assets under Management (AuM)
AuM essentially comprise the income-relevant volume of mutual and special fund products in the Securities business (including ETF index funds) and the Real Estate business divisions, direct investments in cooperation partner funds, the share of fund-based asset management attributable to cooperation partners, third party funds and liquidity, the advisory/management mandates as well as advisory from the master fund.

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

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

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

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

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

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

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

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

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

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

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

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

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

Economic result
As a central control variable, together with economic risk, the economic result forms the basis for risk/return management in the Deka Group and is, in principle, determined in accordance with accounting and measurement policies of the IFRS reporting standards. As well as net income before tax, the economic result includes changes in the revaluation reserve before tax as well as the interest rate and currency related valuation result from original lending and issuance business, which are not recognised in the income statement under IFRS but are, however, relevant for assessing the income situation. Furthermore, the economic result takes into account potential future charges, the occurrence of which is regarded as possible in the future, but which cannot be recognised in IFRS reporting at the present point in time due to the lack of sufficient reliability. The economic result is therefore a control variable on an accrual basis whose high level of transparency enables recipients of the external financial reporting to consider the company from the management perspective.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Net sales performance
Performance indicator of sales success. This results essentially from the total of direct sales of mutual and special funds, fund-based asset management, the funds of co-operation partners and the master fund, advisory/management mandates as well as ETF index funds. Sales generated through own investments are not taken into account.

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

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

Payments to the alliance partners
Payments made by the 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.

Primary/secondary cover potential
The primary cover potential consists of the total risk-bearing capacity less the secondary risk cover potential (capital buffer for potential stress situations and capital buffer for pension commitments). To ensure that no subordinated liabilities are taken into account in the risk-bearing capacity for the purposes of the primary risk cover potential, the capital buffer for potential stress situations must always be greater than the subordinated capital components of the total risk-bearing capacity.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Value-at-risk
The Value-at-risk identifies the maximum possible loss that might arise within a prescribed period (= holding period, for example 10 days) and confidence level (for example 95%) in the event of the assumed changes in market parameters (interest rates, currencies and share prices etc.).

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

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

Wertpapierhaus
DekaBank is the fully-fledged securities service provider (the *Wertpapierhaus*) of the *Sparkassen-Finanzgruppe*. In this capacity, it offers the combined expertise of asset manager, financier, issuer, structurer, liquidity centre, clearing partner and custodian bank.

Internet website

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

Contact

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This report was prepared in March 2014

Gender clause

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

Disclaimer

The Management Report as well as the Annual financial statements 2013 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 DekaBank Annual financial statements is provided for convenience only. The German original is definitive.

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