

**DekaBank
Deutsche Girozentrale
Annual financial statements 2016**

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Management report

At a glance

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

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

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

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

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

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

Information about the Deka Group

Deka Group profile and strategy

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

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

Legal structure and corporate governance

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

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

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

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

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

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

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

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

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

The Capital Markets business division remains unchanged.

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

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

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

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

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

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

Business model

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

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

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

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

Deka Group strategy

Strategic objectives

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

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

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

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

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

Strategic measures

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

Support for savings banks in retail business

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

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

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

Support for savings banks in online securities business

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

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

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

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

Enhancement of the investment process

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

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

During the reporting year, optimisation of equity and bond products as well as the growth of multi asset funds were once again at the heart of product strategy. To this end, the focus was on specific themes. For example, newly established bond funds with a focus on high-yield bonds enable investors to participate in an attractive bond segment. With its new US dollar-denominated open-ended mutual property fund with an investment focus on North America, Deka offers savings bank customers access to the attractive property markets of this region. The launch of the Deka-Industrie 4.0 fund allows investors to benefit from the growth opportunities of the fourth industrial revolution. Deka's flagship product *Deka-Vermögenskonzept* (Deka Wealth Concept) was similarly enhanced over the past year. Taken together with *Deka-BasisAnlage* (Deka Basic Investment), this means that

once again optimised products are available in the retail segment for regular saving through securities investments. For certificates issued by DekaBank's Capital Markets business division, as in the previous year, the emphasis was on equity-based structures, in particular 'express' certificate structures and reverse convertible bonds.

Awards

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

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

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

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

Growth strategy in institutional business

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

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

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

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

Measures in banking business divisions

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

Ongoing development of the sustainability strategy

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

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

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

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

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

The Deka Group manages sustainability in a holistic manner, as a responsibility that cuts across all areas of the Bank. Alongside the recognition of national and international standards (UN Global Compact, Equator Principles and the German Sustainability Code (*Deutscher Nachhaltigkeitskodex*)), the continued improvement of sustainable product and services portfolios is growing ever more important. Against the backdrop of the German government's Climate Action Plan 2050, the Deka Group has thus set itself the goal of producing overall evidence on CO₂ emissions associated with its business activities. This includes in particular compiling the indirect emissions from total customer assets and from banking business recognised on the balance sheet, in addition to the readings already available on proprietary banking operations. A step-by-step plan will be created on the basis of the evidence obtained. The measures set out in the plan are to be implemented from 2018.

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

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

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

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

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

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

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

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

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

Organisational structure

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

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

Securities business division

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

The product range comprises

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

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

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

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

Real Estate business division

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

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

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

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

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

Capital Markets business division

The Capital Markets business division is the central product, solution and infrastructure provider while also acting as a service provider and driving forward innovation in the Deka Group's customer-focused capital market business. As such, the business division provides the link between customers and the capital markets. The business division's portfolio is optimised on an ongoing basis in light of regulatory requirements and taking into account the needs of customers.

With its tailored range of services relating to securities repurchase transactions, securities lending and foreign exchange trading, the business division provides the central securities and collateral platform for the savings bank association. The business division thus enables customers to carry out transactions in all asset classes. It serves as a centre of competence for trading and structuring capital market products as well as for DekaBank's issuance business. It also offers institutional customers clearing services, thus helping them to fulfil regulatory requirements efficiently.

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

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

The business division's aim is to continue to offer functions of strategic importance to the *Wertpapierhaus* of the *Sparkassen-Finanzgruppe*, despite a difficult market environment, by exploiting synergies and economies of scale. The business division is responding to regulatory requirements by optimising the business portfolio on an ongoing basis and by efficiently managing regulatory capital requirements. In this way, the business division acts as a solution and infrastructure provider for the savings banks and other institutional customers.

Financing business division

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

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

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

Sales

Savings Banks Sales & Marketing

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

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

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

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

Institutional Customer Sales

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

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

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

Corporate centres

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

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

Non-core business

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

Major companies and locations

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

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

Markets and influencing factors

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

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

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

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

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

Risk and profit management at the Deka Group

The structure and content of the section on risk and profit management correspond to the relevant section published in the Group management report of the Deka Group. Risk and profit management are oriented towards the Deka Group, while Group management is aligned with the business divisions, thereby incorporating all

business divisions and legal entities. Financial and non-financial performance indicators are defined and monitored solely at Group level, and not at the level of individual institutions. Therefore, no separate section on risk and profit management has been prepared for DekaBank on an individual basis.

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

Financial performance indicators

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

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

The economic result has been used in external reporting at Group and business division level since 2007. For information on reconciling the economic result with net income before tax according to IFRS, refer to segment reporting in note [2] of the consolidated financial statements of Deka Group, which shows the measurement and reporting differences in the "reconciliation" column. This ensures that it is possible to reconcile the figures presented with net income before tax. Differences between the Deka Group's net income before tax according to IFRS in the consolidated financial statements and DekaBank's net income before tax prepared under HGB result primarily from different accounting policies under HGB and IFRS, and from consolidation effects.

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

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

Non-financial performance indicators

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

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

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

A distinction is made here between:

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

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

Economic report

Economic environment

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

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

Overall economic conditions

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

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

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

Sector-related conditions

Trends in money and capital markets

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

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

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

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

Trends in property markets

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

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

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

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

Investor attitudes

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

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

Regulatory environment

Changes to regulations, both those already initiated and those in the pipeline, once again influenced the business model and profitability of the Deka Group during the 2016 financial year. Regulatory projects entail particularly significant costs and resource requirements.

Regulatory topics

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

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

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

In the course of implementing the Bank Recovery and Resolution Directive (BRRD) as well as the accompanying regulation on the Single Resolution Mechanism (SRM), in the second half of 2016 the resolution authority began to draft the recovery plan for DekaBank, which will continue to be refined during 2017. Preparation of the plan

will include an assessment of DekaBank's resolvability. If the competent resolution authority should identify obstacles to recovery, it may demand that DekaBank take steps to eliminate them.

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

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

Product and performance-related regulatory proposals

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

Tax policy developments

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

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

Business development of the Deka Group

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

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

In asset management growth momentum remained intact. Despite an extremely challenging capital market environment, net sales performance remained at a high level, and at €16.9bn was only 13.3% below the high result of the previous year (€19.5bn). A reduction in relation to mutual funds, which was, however, less pronounced

than the level experienced by competitors, thanks to significant growth in equity and property funds as well as the successful introduction of new multi-asset products, was offset by robust growth in certificates. Due to the high level of net fund inflows overall, Deka was able to consolidate its market position. The high levels achieved in the previous year were not quite reached for special funds and mandates.

Net sales Deka Group (Fig. 1)

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

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

Total customer assets Deka Group (Fig. 2)

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

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

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

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

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

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

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

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

Comparison of forecast and actual growth

The comparison between the actual and forecast change corresponds to the relevant section published in the Deka Group's Group management report. Group and business division planning are oriented towards the Deka Group, while Group management is aligned with the business divisions, thereby incorporating all business divisions and legal entities including DekaBank in its capacity as an individual institution.

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

Deka Group key performance indicators (Fig. 3)

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

Ratings

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

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

structured bonds as senior unsecured debt. Senior unsecured liabilities are classified as senior subordinated debt. Bonds classified as senior unsecured debt are now rated A+, while those in the senior subordinated debt category are rated A.

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

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

Profit performance of DekaBank

At €130m, DekaBank's net income after tax exceeded the result of the previous year by 4% in the year under review. Ordinary income from the total of net income from interest and equity investments, commission income, trading profit and other operating income amounted to €1,411m (previous year: €1,247m), growing by 13.2%. Net income from interest and equity investments showed an increase of €172m to €595m. Net interest income amounted to €285m (previous year: €31m). This was primarily driven by close-out payments from hedging derivatives in the banking book. Net income from equity investments fell in comparison to the previous year from €391m to €309m, predominantly due to lower earnings contributions from affiliated companies. Net commission income also declined and at €190m was moderately below the 2015 result of €218m. At €283m, trading profit was up by €49m against the previous year's result of €234m. Other operating income amounted to €343m (previous year: €373m).

Other operating expenses fell to €706m in the year under review (previous year: €749m). Of this amount, other administrative expenses, including depreciation and amortisation, rose by 6.6% to €364m, which was attributable in particular to consultancy expenses for projects to meet regulatory requirements as well as expenditure on computer equipment and machinery. Overall, the result before risk provisioning thus amounted to €704m, up €206m on the previous year. The overall valuation result from the lending, securities and investment business for the past financial year had a negative impact, standing at €-222m (previous year: €53m). The valuation result reflects in particular a significant increase compared to the previous year in provisions for loan losses in the lending business. The higher allocations are predominantly the result of specific provisions in relation to legacy ship loans granted prior to 2010. In addition, the contribution to earnings made by securities in the liquidity reserve was negative during the reporting year, at €-39m (previous year: €27m). After deducting taxes on profits and making the allocation to the fund for general banking risks to strengthen its core capital, DekaBank achieved an operating result after tax of €130m (previous year: €125m).

Profit performance DekaBank (Fig. 4)

€m	2016	2015	Change	
Net interest income and net income from equity investments	595	422	172.5	40.9%
Net commission income	190	218	-28.0	-12.8%
Trading result	283	234	49.4	21.1%
General administrative expenses (including depreciation)	670	678	-7.8	-1.2%
Risk provision/valuation	-222	-53	-169.0	(< -300%)
Income tax	138	129	9.0	7.0%
Net income after tax	130	125	5.0	4.0%

Business development in the business divisions

Business development in the Securities business division

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

Net sales performance and total customer assets

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

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

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

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

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

Net sales Securities business division (Fig. 5)

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

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

Total customer assets Securities business division (Fig. 6)

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

Business development in the Real Estate business division

The Real Estate business division operated successfully in international transaction markets, despite high demand for prime properties. The launch of new products in both retail and institutional business laid the foundation for further growth. As expected, the economic result did not match the comparative figure for 2015,

which was influenced by non-recurring one-off factors. Earnings were slightly above the adjusted figure for the previous year.

Net sales performance and total customer assets

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

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

Net sales Real Estate business division (Fig. 7)

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

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

Total customer assets Real Estate business division (Fig. 8)

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

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

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

Property financing

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

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

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

Business development in the Capital Markets business division

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

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

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

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

Business development in the Financing business division

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

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

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

Business development in non-core business

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

Financial position and assets and liabilities of the Deka Group

Financial management principles and objectives

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

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

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

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

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

Derivative financial instruments are used for trading purposes and to hedge interest rate risks, currency risks and other price risks in the banking book and trading book. DekaBank does not have extensive open currency positions. Details of derivative transactions can be found in the notes to the Deka Group's 2016 consolidated financial statements.

Financial position, capital structure, assets and liabilities

DekaBank's business volume shrank by around €23bn in 2016, or 20.6%, to €89.6bn (previous year: €112.8bn). Total assets dropped by €23.5bn or 21.7% from €108.0bn to €84.5bn, primarily due to the expiry of money market financing and refinancing holdings.

Receivables due from customers increased by €1.5bn to €17.3bn, thus representing 20.4% of total assets in the reporting year. Receivables due from banks were down by €4.9bn to €11.6bn, corresponding to 13.7% of total assets (previous year: 15.3%). Assets held for trading shrank by €24.0bn to €30.7bn, primarily due to the expiry of holdings in short-dated commercial paper. This corresponded to only 36.3% of total assets, having been around 50% in the previous year.

Amounts due to customers amounted to €18.9bn (previous year: €22.2bn), representing 22.4% of total assets. Amounts due to banks also decreased, representing around 19% of total assets at €15.8bn (previous year: €17.5bn). Securitised liabilities fell by €8.9bn to €11.7bn, thus representing 13.8% of total assets. Liabilities held for trading were down €9.7bn on the previous year, amounting to €31.2bn.

Balance sheet changes DekaBank (Fig. 9)

€m	31 Dec 2016	31 Dec 2015	Change	
Balance sheet total	84,537	108,001	-23,464	-21.7%
Selected items on the assets side				
Due from banks and customers	28,843	32,216	-3,373	-10.5%
Financial assets at fair value	16,678	12,510	4,168	33.3%
Financial investments	30,679	54,694	-24,015	-43.9%
Selected items on the liabilities side				
Due to banks and customers	34,680	39,616	-4,936	-12.5%
Securitised liabilities	11,661	20,597	-8,936	-43.4%
Financial liabilities at fair value	31,162	40,848	-9,686	-23.7%

Changes in regulatory capital (own funds)

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

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

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

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

Regulatory capital Deka Group (Fig. 10)

€m	31 Dec 2016		31 Dec 2015	
	CRR/CRD IV (without transitional provisions)	CRR/CRD IV (with transitional provisions)	CRR/CRD IV (without transitional provisions)	CRR/CRD IV (with transitional provisions)
Common Equity Tier 1 capital	3,978	4,216	3,866	4,213
Additional Common Equity Tier 1 capital	474	348	474	292
Tier 1 capital	4,451	4,564	4,339	4,505
Tier 2 capital	838	801	855	814
Own funds	5,289	5,366	5,194	5,319
Credit risk	15,038	15,038	15,391	15,391
CVA risk	1,411	1,411	1,727	1,727
Market risk	4,478	4,478	11,884	11,884
Operational risk	2,887	2,887	2,185	2,185
Risk-weighted assets (total risk exposure amount)	23,813	23,813	31,188	31,188
%				
Common Equity Tier 1 capital ratio	16.7	17.7	12.4	13.5
Tier 1 capital ratio	18.7	19.2	13.9	14.4
Total capital ratio	22.2	22.5	16.7	17.1

Liquidity and refinancing

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

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

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

Human resources report

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

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

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

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

Forecast and opportunities report

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

Forecast report

Forward-looking statements

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

Expected macroeconomic trends

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

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

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

Expected trends in the capital markets

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

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

Expected trends in the property markets

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

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

Overall assessment of the economic trends

Overall, the Deka Group expects no significant changes to economic conditions from the 2016 financial year. The surplus liquidity on the money market driven by ECB policy, and the low interest rates and yields, which are expected to remain low going forward, will continue to create some relatively challenging conditions for the Deka Group. Whether the interest rate environment will cause investors to shift towards securities investments will depend, among things, on the influence of political factors. The uncertainty resulting from political developments and conflicts could mask positive fundamental data. Moreover, regulatory interventions could unsettle investors and lead to fund outflows.

Expected business development and profit performance

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

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

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

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

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

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

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

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

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

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

Expected financial and risk position

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

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

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

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

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

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

Opportunities report

Opportunity management

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

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

Current opportunities

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

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

A favourable macroeconomic scenario such as this would improve general conditions most notably for securities- and property-related asset management and capital market activities. This would be further boosted by the valuation of pension obligations. This scenario is seen as rather unlikely, however.

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

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

Risk report

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

Risk policy and strategy

The basic principles underlying the Deka Group's risk policy and strategy remain largely unchanged from the previous year. To achieve its objectives, the Deka Group consciously incurs risk in line with strategic requirements in order to generate sustainable added value for its shareholders. The Deka Group utilises the advantages arising from the interconnection of its business activities in the areas of investment funds and real estate, and in its lending and capital market businesses, to successfully implement its vision of the *Wertpapierhaus*, while avoiding any conflicts of interest. Implementation of the business model, with customers as the key focus of business activities, may give rise not only to counterparty, market price and operational risks but, more particularly, to business and reputational risks as well as liquidity risks. These risks are limited by a comprehensive risk management system that covers all types of risk and all business divisions, sales and corporate centres in order to ensure the success of the Deka Group as a business.

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

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

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

Risk appetite is determined taking into account the desired risk profile and available risk capacity. It represents the overall aggregated risk from individual risk types that the Deka Group is prepared to enter into, within the available economic capital resources, in order to meet its strategic objectives. In the Internal Capital Adequacy Assessment Process (ICAAP), risk appetite is defined as the allocated risk capital. Particular consideration is given here to risk concentrations to which the Deka Group consciously exposes itself in connection with its business model. The

main examples of this are the Group's focus on the domestic public sector, on German savings banks and their customers, and on selected capital market participants and central counterparties, which is partly due to its function as a securities and collateral platform. In addition to risks that have an impact on the income statement, risk appetite is also defined in qualitative terms for non-financial risks, including reputational risk and compliance risk.

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

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

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

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

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

Organisation of risk management and control

Three Lines of Defence Model

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

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

Board of Management and Administrative Board

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

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

Management committees, business divisions and corporate centres

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

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

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

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

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

		Market price risk	Liquidity risk	Counterparty risk	Operational risk	Business risk	Property risk/ property fund risk	Shareholding risk
Administrative Board Audit- and Risk Committee	<ul style="list-style-type: none"> - Overview of current risk situation/risk management system - Discussion of strategic direction with Board of Management 	●	●	●	●	●	●	●
Credit Committee	<ul style="list-style-type: none"> - Loan approval committee - Discussion of the business direction in lending business with Board of Management 			●				
Board of Management	<ul style="list-style-type: none"> - Determines strategic direction - Responsible for Group-wide risk management system - Sets return on equity target and allocation of risk capital to risk types and business divisions - Sets overall limit and approves limits within risk types 	●	●	●	●	●	●	●
Management Committee Risk (MKR)	<ul style="list-style-type: none"> - Supports the Board of Management in matters relating to significant existing and forecasted risks - Supports the Board of Management with the evaluation of issues that have a significant effect on the overall risk profile - Preparation of draft resolutions for the Board of Management - Supplemented by various sub-committees 	●	●	●	●	●	●	●
Stress Testing Committee	<ul style="list-style-type: none"> - Assesses and appraises stress scenarios and stress test results - Specifies stress testing processes - Reports and makes recommendations for action to the Board of Management 	●	●	●	●	●	●	●
Models Committee	<ul style="list-style-type: none"> - Assessment of current trends and validation issues with regard to valuation and risk models - Central operational body for assessing model risks 	●	●	●	●	●	●	●
Country Risk Committee	<ul style="list-style-type: none"> - Assesses country risks 			●				
Monitoring Committee	<ul style="list-style-type: none"> - Monitors and manages non-performing and troubled loans or those on the watch list 			●				
Rating Committee	<ul style="list-style-type: none"> - Enhances and maintains internal rating procedures 			●				
Risk Provisioning Comitee	<ul style="list-style-type: none"> - Planning, management and monitoring of loan loss provisions - Monitoring and management of restructuring and liquidation cases 			●				
Risk Talk	<ul style="list-style-type: none"> - Supporting the MKR/Board of Management in connection with risk management and monitoring processes in the Capital Markets business division's operational processes - Emphasis on market and counterparty-specific risk 	●	●	●	●	●		
Management Committee Assets/Liabilities (<i>Managementkomitee Aktiv-Passiv</i> – MKAP)	<ul style="list-style-type: none"> - Supports the Board of Management in matters relating to interest rate and FX management, liquidity and funding management, capital and balance sheet structure management - Proposes, introduces and monitors risk-mitigating measures in liquidity emergencies - Preparation of draft resolutions for the Board of Management 	●	●	●	●	●	●	●
Securities business division	<ul style="list-style-type: none"> - Conducts transactions in line with strategic guidelines - Identifies, measures and manages operational risks on a decentralised basis 	●	●	●	●	●	●	●
Real Estate business division	<ul style="list-style-type: none"> - Conducts transactions in line with strategic guidelines - Identifies, measures and manages operational risks on a decentralised basis 		●	●	●	●	●	●
Capital Markets business division	<ul style="list-style-type: none"> - Conducts transactions in line with strategic guidelines - Makes decisions within the guidelines established by the MKAP and sets limits within the business division - Identifies, measures and manages operational risks on a decentralised basis 	●	●	●	●	●		

		Market price risk	Liquidity risk	Counterparty risk	Operational risk	Business risk	Property risk/ property fund risk	Shareholding risk
Financing business division	<ul style="list-style-type: none"> - Conducts transactions in line with strategic guidelines - Identifies, measures and manages operational risks on a decentralised basis 		●	●	●	●		●
Treasury (Corporate Centre)	<ul style="list-style-type: none"> - Conducts transactions in line with strategic guidelines and existing risk limits - Makes decisions within the guidelines proposed by the MKAP and established by the Board of Management and sets limits within the Corporate Centre - Manages market price risks in the banking book, manages the liquidity and refinancing of the Deka Group - Identifies, measures and manages operational risks on a decentralised basis 	●	●	●	●			
Risk Controlling (Corporate Centre)	<ul style="list-style-type: none"> - Development/update system to quantify, analyse and monitor risks - Reports to Board of Management and Administrative Board - Determines/monitors risk-bearing capacity - Monitors approved limits 	●	●	●	●	●	●	●
Credit Risk Office (Corporate Centre)	<ul style="list-style-type: none"> - Administrative office for early risk identification - Market independent second recommendation - Reviews and/or approves ratings - Checks certain collateral - Monitors management of non-performing and troubled loans - Identifies, measures and manages operational risks on a decentralised basis 			●	●			
Shareholdings (Corporate Centre Strategy & Shareholdings)	<ul style="list-style-type: none"> - Manages equity investment portfolio - Identifies, measures and manages operational risks on a decentralised basis 				●			●
Compliance (Corporate Centre)	<ul style="list-style-type: none"> - Regulatory function of Compliance Officer as set out in the German Banking Act (KWG), German Securities Trading Act (WpHG) and German Investment Code (KAGB), along with the function of Money Laundering Officer pursuant to the German Money Laundering Act (GwG); Central Office in line with the requirements of the KWG - Fulfills function of Responsible Officer for QIs under FATCA 				●			
Information Security Management (Corporate Centre IT)	<ul style="list-style-type: none"> - Ensures IT security and is responsible for business continuity management 				●			
Other Corporate Centres	<ul style="list-style-type: none"> - Identifies, measures and manages operational risks on a decentralised basis 				●			
Internal Audit (Corporate Centre)	<ul style="list-style-type: none"> - Audits and evaluates all activities/processes (especially risk management system) 	●	●	●	●	●	●	●

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

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

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

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

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

Sub-committees of the Risk Management Committee

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

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

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

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

Reporting

Appropriate and high-quality aggregation of risk data and reporting based on this provide the foundations for effectively monitoring and managing risk appetite within the framework of the risk strategy. Key instruments for risk reporting include firstly the monthly reporting on the economic risk situation and on the key regulatory liquidity ratios, and secondly the quarterly risk report in accordance with MaRisk, which provides the Board of Management and the Administrative Board with a comprehensive overview of risk-bearing capacity and the

significant types of risk. Furthermore, the Board of Management receives summary reports containing the key points on the current risk situation and on the corresponding utilisation of risk-bearing capacity. Depending on the type of risk, these reports may be provided on a daily basis or at a minimum once a month.

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

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

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

Further developments in risk management

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

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

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

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

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

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

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

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

Overall risk position of DekaBank

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

Risk definitions, concentrations and measurement

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

Market price risk

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

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

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

Share price risks are identified as risk factors via individual shares or indices and are influenced by risks from share or index volatility. The associated option risks or volatility risks are also taken into account here. Currency risks reflect changes in exchange rates.

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

Counterparty risk

Counterparty risk is the risk of financial loss resulting from the deterioration in the creditworthiness of a borrower, issuer or other counterparty (migration risk) or when the counterparty is no longer able to fulfil its contractually-agreed obligations, or not able to fulfil them in a timely manner (default risk). Counterparty risk also includes country risk in the form of transfer risk, which results not from the business partner itself, but instead is due to its location abroad.

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

Operational risk

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

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

Business risk

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

Reputational risk

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

Model risk

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

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

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

Liquidity risk

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

Insolvency risk describes the risk that the Deka Group cannot meet its current and future payment obligations in a timely manner because the Group's liabilities exceed the available liquid funds.

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

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

Further types of risk

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

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

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

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

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

Risk concentrations

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

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

Business-division-specific risk profiles

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

Securities business division

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

Real Estate business division

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

Capital Markets business division

In the Capital Markets business division, customer-driven business activities give rise to market, counterparty and issuer risks. The result primarily from currency, securities lending and securities repurchase transactions, from trades in financial instruments with financial institutions, savings banks, funds and companies, and in relation to the strategic investments of DekaBank. Market price risks in the context of the Capital Markets business division's liquidity investment activities, which involve strategic investment, primarily result in spread risks, and to a lesser extent interest risk. In addition, the division consciously exposes itself to risk concentrations, above all when supporting Deka funds and savings banks with the provision of liquidity. As the central securities and collateral platform in the association, the Deka Group generates economies of scale and scope. This results especially in concentrations with increased gross risk in relation to individual major banks, market makers that act for the Deka Group and central counterparties. Furthermore, there are risk concentrations in relation to individual Landesbanks as association partners. The collateral in securities lending transactions can also give rise to risk concentrations in collateral, which are limited by the rules in the Collateral Policy.

Financing business division

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

Treasury

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

Non-core business

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

Overall concepts of risk measurement

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

Risk inventory

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

Risk and capital planning

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

Risk-bearing capacity and capital allocation

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

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

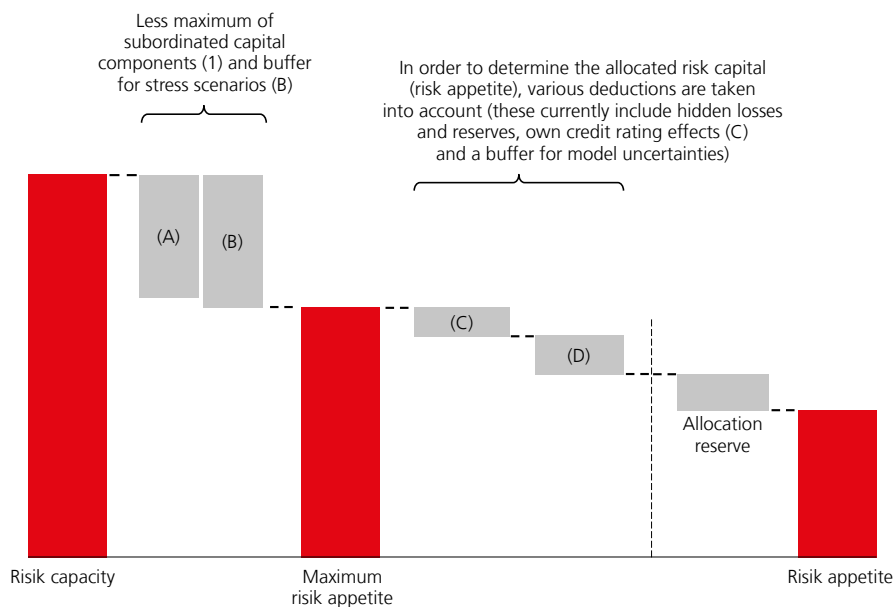
DekaBank uses the value-at-risk approach (VaR) in order to quantify individual risks on a uniform basis and to aggregate them as an indicator for overall risk. The calculation of VaR for a one-year holding period is made for internal management purposes with a confidence level of 99.9%. This level is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

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

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

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

Risk capacity and risk appetite (Fig. 13)



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

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

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

Stress tests and scenario analyses

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

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

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

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

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

Overall risk position in the 2016 financial year

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

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

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

the 2015 year-end. Alongside decreased volatility in the securities sector, this was primarily attributable to the reduced contribution made by the general risk surcharge, due especially to reduced counterparty and market price risks in the capital markets business. Overall, the risk level of the remaining types of risk included in the analysis of risk-bearing capacity was still below the low level of the 2015 year-end.

Change in Group risk over the course of the year

(Fig. 14)

€m					
Dec 16	1,156	258	231	395	2,039
Sept 16	1,198	314	238	428	2,179
June 16	1,400	404	240	457	2,502
Mar 16	1,374	339	242	465	2,420
Dec 15	1,357	346	275	463	2,440

■ Counterparty risk ■ Market price risk
■ Operational risk ■ Other risks

Change in Group risk over the course of the year – other risks

(Fig. 15)

€m					
Dec 16	356	20	19	0	395
Sept 16	393	20	15	0	428
June 16	422	22	12	0	457
Mar 16	426	26	13	0	465
Dec 15	422	28	13	0	463

■ Business risk ■ Shareholding risk
■ Property fund risk ■ Property risk

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

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

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

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

Market price risks

Strategic framework and responsibilities

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

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

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

Focus, structure and degree of risk associated with business activities

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

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

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

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

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

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

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

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

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

Management and limit-setting

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

Value-at-Risk (VaR)

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

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

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

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

Sensitivity-based management metrics

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

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

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

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

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

Scenario considerations and stress analyses

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

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

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

Backtesting of VaR risk ratios and validation

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

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

Current risk situation

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

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

Value-at-Risk – Deka Group excluding guarantees¹⁾
(Confidence level 99%, holding period ten days) (Fig. 16)

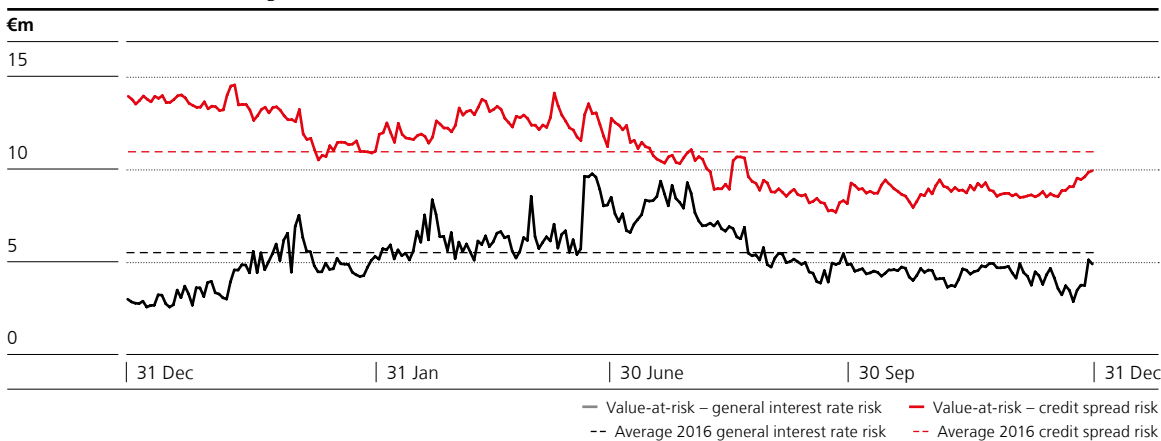
€m	31 Dec 2016				31 Dec 2015				Change in risk
	Treasury and Capital Markets business division	S Broker	Non-core business	Deka Group excluding guarantees	Treasury and Capital Markets business division	S Broker	Non-core business	Deka Group excluding guarantees	
Interest rate risk	28.1	2.3	5.1	29.2	44.0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

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

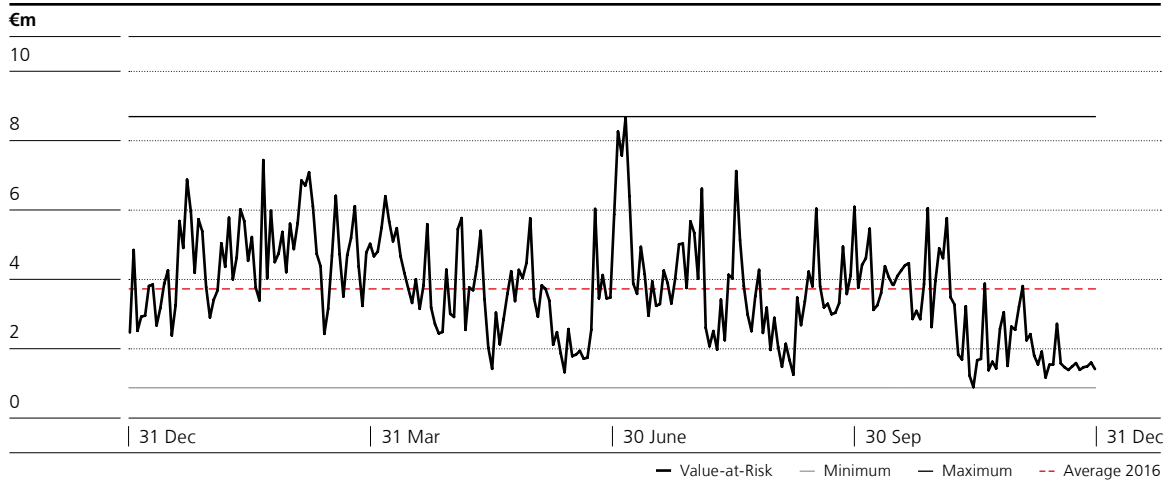
At the end of the reporting year, the VaR for credit spread risk reduced to €30.7m (end of 2015: €43.8m). The primary cause of the risk reduction was a substantial planned reduction in bond positions, in both the Treasury corporate centre and the Capital Markets business division. A significant proportion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

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

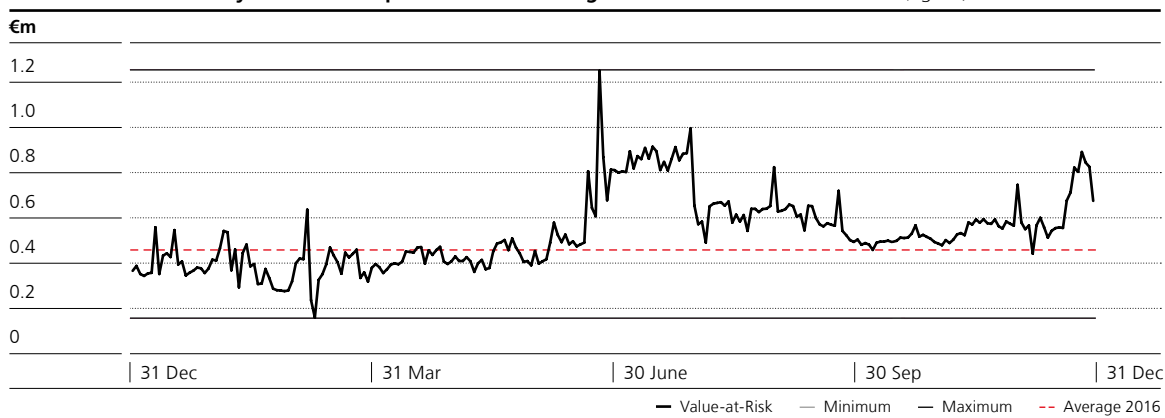
Value-at-risk – General interest rate risk and credit spread risk in the Capital Markets trading book over the course of 2016 (Fig. 17)



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

Value-at-risk – Share price risk in the Capital Markets trading book over the course of 2016 (Fig. 18)

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

Value-at-risk – Currency risk in the Capital Markets trading book over the course of 2016 (Fig. 19)**Counterparty risk****Strategic framework and responsibilities**

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

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

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

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

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

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

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

Focus, structure and degree of risk associated with business activities

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

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

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

In the Financing business division, counterparty risks arise in part from infrastructure and transport financing. The Financing business division also includes business with domestic savings banks as well as financing of the domestic public sector. Due to the limited volume of financing in the business division in relation to the Deka Group's total

loan volume, there are no risk concentrations in these areas. The business is focused on Germany due to its close involvement in the savings banks association and its transactions with the domestic public sector. There is thus a country concentration as a result of the business model. In addition, the Deka Group's ownership structure and its function in the savings bank association lead to a sector concentration in financial institutions.

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

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

Management and limit-setting

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

Portfolio model

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

Operating management limits

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

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

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

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

Quantification of counterparty risk

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

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

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

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

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

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

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

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

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

Management and monitoring of counterparty risks

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

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

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

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

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

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

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

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

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

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

Performance of stress tests

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

Default monitoring

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

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

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

Current risk situation

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

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

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

Gross loan volume (Fig. 20)

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

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

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

Net loan volume (Fig. 21)

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

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

Gross loan volume by region (Fig. 22)

€m	
Eurozone	88,110
	103,052
EU excluding eurozone	19,366
	20,696
OECD excluding EU	13,138
	14,882
International organisations	792
	627
Other countries	2,930
	3,087

■ Gross loan volume 31 Dec 2016 ■ Gross loan volume 31 Dec 2015

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

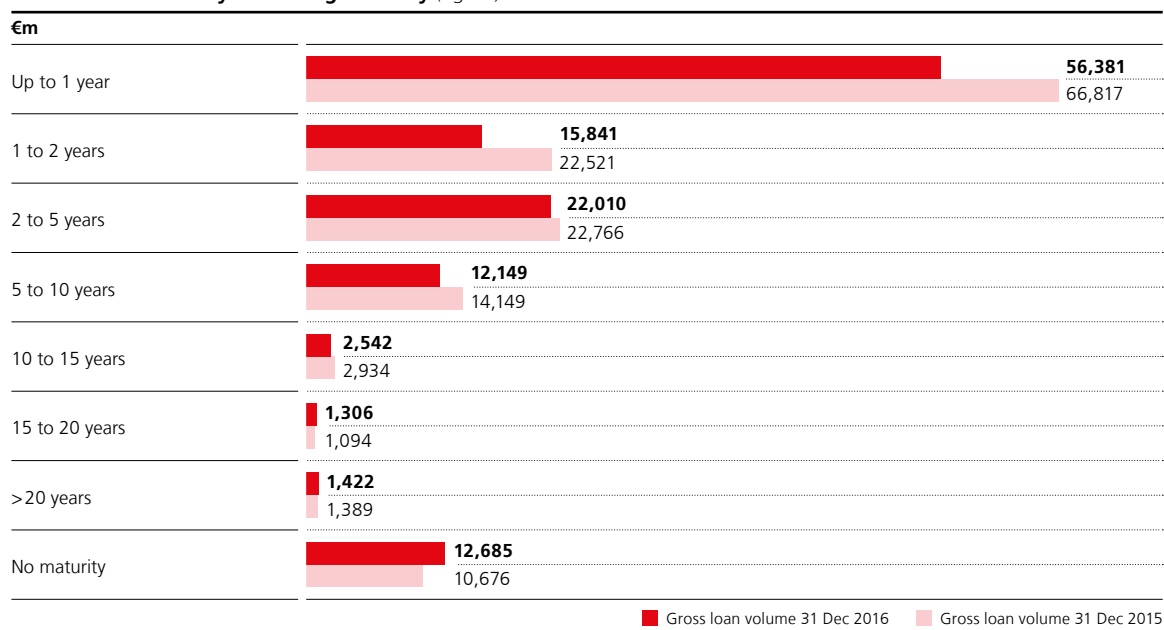
Gross loan volume by PIIGS countries and sector as at 31 December 2016 (Fig. 23)

€m	Greece	Ireland	Spain	Italy	Portugal	Total
Central government	0	20	328	254	17	618
Public sector	0	0	0	0	0	0
Banks	0	0	1,515	509	0	2,024
Corporates	0	505	294	476	0	1,276
Other	0	0	74	70	0	144
Total	0	525	2,212	1,308	17	4,062

Change vs. previous year

Central government	0	-12	186	-107	0	67
Public sector	0	0	0	0	0	0
Banks	0	0	346	-272	0	74
Corporates	0	59	43	71	0	173
Other	0	0	-9	-17	0	-26
Total	0	47	565	-325	0	288

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

Gross loan volume by remaining maturity (Fig. 24)

The level of risk concentration in the loan portfolio reduced substantially during the reporting year and, in view also of the creditworthiness of major counterparties, continues to be deemed reasonable and appropriate. As at 31 December 2016, 19.6% (end of 2015: 29.2%) of gross loan volume was attributable to borrower units with a gross limit of at least €2.5bn or an overall net limit of at least €1.0bn (counterparty clusters). This was influenced by the reduction in the number of counterparty clusters due to various limit reductions, as well as by the classification of one counterparty as a central counterparty, with this counterparty being classified as an exception. 33.8% of the cluster portfolio related to counterparties from the domestic public sector, savings banks and other alliance partners.

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

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

Net loan volume by risk segment and rating (Fig. 25)

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

Operational risk**Strategic framework and responsibilities**

The strategy determined by the Deka Group to deal with operational risks (OR strategy) is the basis for the way in which the Group is organised to manage operational risks. It defines the framework for the Group-wide structure and operation of a standard system for identifying, assessing, monitoring and managing operational risks. The OR strategy applies to all organisational units of the Deka Group.

Roles and responsibilities

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

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

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

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

Cross-divisional functions

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

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

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

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

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

Methods used

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

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

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

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

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

To determine the economic capital requirement for operational risks, the Deka Group uses an advanced measurement approach (AMA) that has been approved by regulatory authorities. This approach quantifies the Bank’s operational risk based on a loss distribution approach, using methods set out in the approach itself and external loss data to supplement the data on internal losses. The value-at-risk figures thus identified are incorporated into both the regulatory capital and reserves requirement and the internal risk-bearing capacity analysis of the Deka Group. At the 2015 reporting date a general surcharge was still applied in the risk-bearing capacity analysis in

order to pre-empt the risk-augmenting effects of the planned model changes. However, this was no longer required at the end of 2016 since supervisory approval for the revised model had been obtained in the interim period, allowing the model to be applied as normal.

Current risk situation

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

The OR loss potential identified in the Group-wide risk inventory recorded a moderate increase to €50m (end of 2015: €45m). The increase is partly attributable to the first-time incorporation of risk assessments for S Broker. It also reflects an awareness of increased risk, for example relating to the timely implementation of individual regulatory requirements, or risks related to the change in IT infrastructure provider during 2016 that have not yet been fully mitigated. In contrast to VaR, which is an upper limit for losses, with a specific probability that the limit will not be exceeded, loss potential is an expected value that results from the estimated frequency of occurrence and scale of losses of all OR scenarios in the Deka Group.

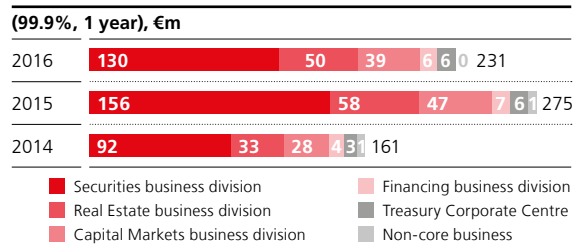
Compliance

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

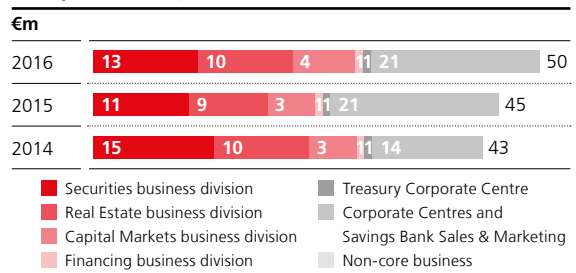
The Compliance corporate centre is responsible for monitoring compliance with regulatory requirements arising under capital markets and investment law pursuant to the German Securities Trading Act (*Wertpapierhandelsgesetz – WpHG*) and the German Investment Code (*Kapitalanlagegesetzbuch – KAGB*). The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

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

Value-at-Risk (Fig. 26)



Loss potential (Fig. 27)



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

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

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

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

Accounting-related internal control and risk management system

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

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

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

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

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

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

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

Liquidity risks

Strategic framework and responsibilities

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

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

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

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

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

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

Management and limit-setting

Funding matrices

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

the cumulative liquidity potential. The balance is managed using a traffic light system comprised of early warning thresholds and limits. The liquidity balance must be positive in all monitored maturities.

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

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

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

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

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

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

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

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

Reporting

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

Current risk situation

The Deka Group continued to have ample liquidity throughout the entire reporting year. There were clear positive liquidity balances in all relevant maturity bands of the "combined stress scenario" funding matrix for periods of up to 20 years. This is also the case for the alternative stress scenarios examined and under the going concern approach. The moderate decline in the liquidity balance in the earlier maturity bands reflects the

reduction in money market financing, which was offset by an increase in longer-term issues. There were no overruns of limits or early warning thresholds at any time during the year under review.

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

As at 31 December 2016, the accumulated liquidity balance of the Deka Group's "combined stress scenario" funding matrix in the short-term range (up to one week) stood at €4.6bn (end of 2015: €9.6bn). In the maturity band of up to one month, the liquidity surplus totalled €11.2bn (end of 2015: €9.3bn), and in the medium to long-term range (three months) it was €18.2bn (end of 2015: €14.1bn).

Combined stress scenario funding matrix of Deka Group as at 31 December 2016 (Fig. 28)

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

¹⁾ including lending substitute transactions and issued CLNs

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

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

Business risk

The business risk strategy decided by the Board of Management serves throughout the Group as the basis for monitoring and managing business risks and incorporating them into the Group's risk-bearing capacity analysis. The Deka Group uses a range of complementary tools to analyse business risks depending on the importance of the respective business risk for the business division.

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

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

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

Reputational risk

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

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

Other risks

Shareholding risk

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

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

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

Property fund risk

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

Structured capital market credit products

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

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

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

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

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

Annual financial statements

Balance sheet as at 31 December 2016

Assets	€	€	€	31 Dec 2016 €	31 Dec 2015 €'000
1. Cash reserves					
a) Cash on hand			18,801.75		4
b) Balances with central banks			3,588,826,758.49	3,588,845,560.24	3,561,113
of which:					
with Deutsche Bundesbank	3,588,826,758.49				(3,561,113)
2. Due from banks					
a) due on demand			2,874,066,339.27		5,239,594
b) other claims			8,702,677,847.45	11,576,744,186.72	11,257,805
of which:					
public sector loans	86,304,433.44				(197,358)
3. Due from customers				17,265,837,471.77	15,718,333
of which:					
mortgage loans	1,282,148,617.11				(1,301,329)
public sector loans	2,114,449,636.64				(2,569,338)
other loans secured by mortgages	0.00				(686)
4. Bonds and other fixed-interest securities					
a) Bonds and debt securities					
aa) from public sector issuers		5,470,471,038.17			5,107,950
of which:					
eligible as collateral with Deutsche Bundesbank	5,003,709,092.21				(4,839,711)
ab) from other issuers		11,043,276,895.46	16,513,747,933.63		7,205,482
of which:					
eligible as collateral with Deutsche Bundesbank	9,717,075,696.64				(6,000,635)
b) own bonds			163,946,999.12	16,677,694,932.75	196,392
Nominal amount	163,250,000.00				(195,700)
5. Shares and other non fixed-interest securities				3,370,854,746.19	4,077,820
6. Trading portfolio				30,679,237,213.38	54,693,758
7. Equity investments				39,444,383.00	47,113
of which:					
in banks	117,904.91				(4,518)
8. Shares in affiliated companies				472,790,481.29	456,289
of which:					
in banks	78,819,541.60				(55,867)
in financial services providers	13,037,291.28				(12,775)
9. Trust assets				153,925,492.08	166,057
10. Intangible assets					
a) Concessions, industrial property rights, and similar rights and values as well as licences there to, acquired for a consideration			24,769,762.00		15,550
b) Advance payments			0.00	24,769,762.00	2,290
11. Tangible assets				13,827,427.92	14,125
12. Other assets				237,822,257.66	192,107
13. Prepaid expenses and accrued income					
a) from underwriting and lending business			16,154,270.29		7,456
b) other			418,838,622.46	434,992,892.75	42,079
Total assets				84,536,786,807.75	108,001,317

Liabilities			31 Dec 2016		31 Dec 2015	
	€	€	€	€	€'000	€'000
1. Due to banks						
a) due on demand			2,327,988,469.76			3,723,034
b) with agreed maturity or period of notice			13,432,381,200.83	15,760,369,670.59		13,740,134
of which:						
registered mortgage <i>Pfandbriefe</i>	50,182,815.07					(60,230)
registered public sector <i>Pfandbriefe</i>	186,716,093.80					(204,473)
2. Due to customers						
Other liabilities						
a) due on demand			8,923,880,730.56			9,115,401
b) with agreed maturity or period of notice			9,995,708,638.87	18,919,589,369.43		13,037,316
of which:						
registered mortgage <i>Pfandbriefe</i>	5,008,597.13					(0)
registered public sector <i>Pfandbriefe</i>	2,228,268,895.22					(2,502,437)
3. Securitised liabilities						
a) bonds issued			8,910,115,843.18			7,282,985
of which:						
mortgage <i>Pfandbriefe</i>	35,153,878.32					(55,156)
public sector <i>Pfandbriefe</i>	279,501,033.05					(329,466)
b) other securitised liabilities			2,750,712,550.23	11,660,828,393.41		13,313,670
of which:						
money market paper	2,750,712,550.23					(13,313,670)
4. Trading portfolio				31,162,113,212.70		40,848,058
5. Trust liabilities				153,925,492.08		166,057
6. Other liabilities				1,078,173,152.88		1,166,127
7. Accruals and deferred income						
a) from underwriting and lending business			11,156,995.41			9,740
b) other			104,193,851.22	115,350,846.63		8,346
8. Provisions						
a) provisions for pensions and similar obligations			8,122,853.16			22,944
b) provisions for taxes			15,385,749.04			64,399
c) other provisions			387,167,097.50	410,675,699.70		435,351
9. Subordinated liabilities				1,391,557,846.72		1,432,361
10. Fund for general banking risks				3,010,796,812.59		2,764,863
of which:						
special item pursuant to Section 340 e (4) HGB	174,814,000.00					(143,326)
11. Equity						
a) Subscribed capital						
aa) subscribed capital	191,729,340.56					191,729
ab) silent capital contributions	256,210,457.03	447,939,797.59				256,211
b) Capital reserve		189,366,198.03				189,366
c) Retained earnings						
ca) reserves required by the Bank's statutes	51,283,598.27					51,284
cb) other retained earnings	114,068,590.47	165,352,188.74				114,069
d) Net income		70,748,126.66		873,406,311.02		67,872
Total liabilities				84,536,786,807.75		108,001,317
1. Contingent liabilities						
Liabilities from guarantees and warranty agreements				2,715,764,163.37		2,302,117
2. Other liabilities						
Irrevocable lending commitments				686,007,955.76		1,151,269

Income statement for the period 1 January to 31 December 2016

Expenses and income				2016	2015
	€	€	€	€	€'000
1. Interest income from					
a) Lending and money market transactions		898,736,415.01			975,787
b) Fixed-income securities and debt register claims		205,222,956.66	1,103,959,371.67		205,708
2. Interest expenses			818,907,055.13	285,052,316.54	1,150,476
3. Current income from					
a) Shares and other non fixed-interest securities			17,467,239.69		35,877
b) Equity investments			3,349,844.24		2,085
c) Shares in affiliated companies			62,194,184.87	83,011,268.80	102,670
4. Income from profit pooling, profit transfer and partial profit transfer agreements				228,276,094.78	251,092
5. Commission income			929,372,230.58		953,002
6. Commission expenses			739,393,171.56	189,979,059.02	735,192
7. Net income/expenses from trading portfolio				283,356,062.90	233,994
8. Other operating income				342,708,298.34	372,636
9. General administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		265,659,422.62			257,334
ab) Social security contributions and expenses for pensions and other employee benefits of which:		40,488,596.17	306,148,018.79		79,048
for retirement pensions	7,997,463.19				(48,566)
b) Other administrative expenses			353,650,695.19	659,798,713.98	329,030
10. Write-downs and valuation allowances on intangible assets and tangible assets				10,384,677.57	12,330
11. Other operating expenses				36,111,729.70	70,810
12. Write-downs and valuation allowances on receivables and certain securities and allocations to provisions for loan losses				224,654,290.48	37,632
13. Allocations to the fund for general banking risks				214.446.152,39	190,685
14. Write-downs and valuation allowances on equity investments, shares in affiliates and securities held as fixed assets				0.00	15,528
15. Income from write-ups to equity investments, shares in affiliates and securities held as fixed assets				2,370,849.12	0
16. Expenses due to assumption of losses				1,797,707.95	639
17. Profit or loss on ordinary activities				267,560,677.43	254,147
18. Income taxes				137,538,748.95	129,410
19. Income transferred under profit pooling, profit transfer or partial profit transfer agreements				59,273,801.82	56,864
20. Net income				70,748,126.66	67,872

Notes

General information

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

1 Preparation of the annual financial statements

The annual financial statements of DekaBank Deutsche Girozentrale for the year ended 31 December 2016 have been prepared in accordance with the provisions of the German Commercial Code (HGB) and the Regulation on Accounting Principles Relating to Financial Institutions and Financial Services Institutions (RechKredV). The provisions of the Pfandbrief Act were also taken into account. The balance sheet structure prescribed for commercial banks was expanded to include line items relating to banks active in the Pfandbrief business.

2 Accounting and valuation methods

General information

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

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

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

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

Valuation of securities portfolios and derivatives

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

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

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

Derivative financial instruments that are not traded on stock markets are generally measured using recognised models such as the Black-Scholes model, Black-76 model, Bachelier 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 forward interest rate curves. Discounting is always carried out using the respective currency-specific interest rate curves, which are also used for the corresponding bootstrapping of the forward interest rate curves.

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 tranching 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.

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

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

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

When valuing OTC derivatives, the Bank also takes Credit Value Adjustments (CVAs) or Debit Value Adjustments (DVAs) into consideration in order to account for counterparty credit risk or the Bank's own credit risk, if 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 individual positions. DekaBank also takes into account a Funding Value Adjustment (FVA), which captures the implicit market refinancing costs for uncollateralised derivative positions. The maturity structure of funding is thus considered to be an important component of fair value for uncollateralised derivatives.

Currency translation

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

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

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

Fixed assets

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

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

Provisions for loan losses

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

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

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

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

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

Provisions

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

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

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

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

Deferred taxes

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

3 Derivative transactions

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

Derivative transactions – volume – trading portfolio

€m	Nominal values		Full fair values positive market values		Full fair values negative market values	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Interest rate risks						
OTC products						
Interest rate swaps	416,172.4	393,689.2	10,835.8	9,847.4	10,317.3	9,098.3
Forward Rate Agreements	24,291.0	38,198.0	1.4	1.7	1.3	1.7
Interest rate options						
Purchases	9,683.3	8,587.5	242.7	204.1	63.4	51.9
Sales	12,805.1	10,602.6	148.1	116.3	441.6	342.6
Caps, floors	8,549.0	2,965.1	45.4	19.4	27.7	8.9
Other interest rate futures	2,211.3	2,715.0	23.0	7.1	198.8	143.8
Stock exchange traded products						
Interest rate futures/options on interest rate futures	10,661.1	15,196.4	2.3	1.8	3.9	2.2
Sub-total	484,373.2	471,953.8	11,298.7	10,197.8	11,054.0	9,649.4
Currency risks						
OTC products						
Foreign exchange future contracts	13,215.1	7,776.5	212.9	57.6	203.1	51.3
Interest rate/currency swaps	3,297.1	2,693.2	208.8	162.3	272.2	296.9
Sub-total	16,512.2	10,469.7	421.7	219.9	475.3	348.2
Share and other price risks						
OTC products						
Share forward contracts	–	63.1	–	1.7	–	1.8
Share options						
Purchases	948.1	2,704.2	336.6	2,113.8	–	–
Sales	6,388.7	22,430.1	–	–	725.6	2,515.2
Credit derivatives	10,569.1	11,069.5	92.5	99.3	70.4	107.9
Other forward contracts	2,674.0	1,796.5	52.6	28.8	15.6	11.1
Stock exchange traded products						
Share options	18,530.8	23,741.4	1,021.0	1,399.8	1,469.9	1,867.4
Share futures	2,741.9	216.4	11.7	15.9	56.3	6.2
Sub-total	41,852.6	62,021.2	1,514.4	3,659.3	2,337.8	4,509.6
Total	542,738.0	544,444.7	13,234.8	14,077.0	13,867.1	14,507.2
Amount carried in balance sheet:			7,199.4	9,798.7	7,411.8	10,148.6

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 some €6.0bn (previous year: €4.3bn). On the other hand, the paid variation margin reduces market values on the liabilities side by around €6.5bn (previous year: €4.4bn).

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

€m	Interest rate risks		Currency risks		Share and other price risks	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Residual term to maturity						
less than 3 months	73,668.6	65,966.4	6,209.2	4,867.6	7,333.3	7,340.4
> 3 months to 1 year	54,548.6	61,067.5	6,856.1	3,291.3	13,108.6	12,864.0
> 1 year to 5 years	172,477.3	181,354.3	2,562.4	2,002.1	19,217.7	33,498.7
> than 5 years	183,678.7	163,565.6	884.5	308.7	2,193.0	8,318.1
Total	484,373.2	471,953.8	16,512.2	10,469.7	41,852.6	62,021.2

Derivative transactions – classification by counterparties – trading portfolio

€m	Nominal values		Full fair values positive market values		Full fair values negative market values	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Banks in the OECD	193,078.1	188,205.4	5,664.5	6,421.0	6,012.3	6,729.7
Public sector entities in the OECD	8,005.6	25,874.9	1,171.0	970.0	165.7	344.5
Other counterparties	341,654.3	330,364.4	6,399.3	6,686.0	7,689.1	7,433.0
Total	542,738.0	544,444.7	13,234.8	14,077.0	13,867.1	14,507.2

Derivative transactions – volume – non-trading portfolio

€m	Nominal values		Full fair values positive market values		Full fair values negative market values	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Interest rate risks						
OTC products						
Interest rate swaps	18,682.6	34,021.5	1,116.4	993.5	639.8	679.1
Caps, floors	84.9	85.7	0.1	0.4	–	–
Other interest rate futures	57.1	–	–	–	–	–
Stock exchange traded products						
Interest rate futures/options on interest rate futures	66.8	230.3	–	0.8	0.4	0.2
Sub-total	18,891.4	34,337.5	1,116.5	994.7	640.2	679.3
Currency risks						
OTC products						
Foreign exchange future contracts	1,901.7	8,042.8	15.4	56.1	14.0	78.1
Interest rate/currency swaps	6,866.7	6,408.6	155.8	71.4	1,051.4	1,122.9
Sub-total	8,768.4	14,451.4	171.2	127.5	1,065.4	1,201.0
Share and other price risks						
OTC products						
Share options						
Purchases	–	16.5	–	6.4	–	–
Sales	–	–	–	–	–	–
Credit derivatives	296.9	181.2	1.2	7.0	6.7	4.2
Stock exchange traded products						
Share options	–	–	–	–	–	–
Share futures	71.5	67.3	0.5	–	0.2	0.9
Sub-total	368.4	265.0	1.7	13.4	6.9	5.1
Total	28,028.2	49,053.9	1,289.4	1,135.6	1,712.5	1,885.4

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

Furthermore, a provision for possible losses in the amount of €6.0m was recognised as at the reporting date.

Under EU Regulation No. 648/2012 (EMIR), there is a requirement to perform certain OTC derivate transactions through a central counterparty. The daily settlement of gains and losses to be carried out in this process (variation margin) results in a net liability for the non-trading portfolio of €479.9m. This is recognised in amounts 'Due to customers'.

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

€m	Interest rate risks		Currency risks		Share and other price risks	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Residual term to maturity						
less than 3 months	955.8	12,154.1	1,881.4	5,272.0	71.5	83.8
> 3 months to 1 year	1,666.4	6,257.6	286.1	3,393.2	–	–
> 1 year to 5 years	8,459.5	8,672.0	4,904.6	3,932.2	296.9	181.2
> than 5 years	7,809.7	7,253.8	1,696.3	1,854.0	–	–
Total	18,891.4	34,337.5	8,768.4	14,451.4	368.4	265.0

Derivative transactions – classification by counterparties – non-trading portfolio

€m	Nominal values		Full fair values positive market values		Full fair values negative market values	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Banks in the OECD	11,445.4	16,178.5	270.2	584.4	1,141.2	1,366.1
Public sector entities in the OECD	111.8	113.2	–	–	6.4	11.2
Other counterparties	16,471.0	32,762.2	1,019.2	551.2	564.9	508.1
Total	28,028.2	49,053.9	1,289.4	1,135.6	1,712.5	1,885.4

The derivative financial instruments shown in the tables above are exposed to both market price risks and credit risks. Market price risks describe the potential financial loss caused by future market parameters fluctuations. Market price risks comprise interest rate risks (including credit spread risks), currency risks and share price risks. 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 investments in accordance with Section 285 No. 11 HGB

Name, location	Equity interest in %	Equity ¹⁾ €'000	Result ²⁾ €'000
Shares in affiliated companies			
DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg	100.00	589,372.4	67,890.4
Deka Investment GmbH, Frankfurt/Main	100.00	93,183.1	167,454.8 ³⁾
Deka Immobilien GmbH, Frankfurt/Main	100.00	38,764.7	31,705.1 ³⁾
Deka Immobilien Investment GmbH, Frankfurt/Main	100.00	31,245.1	18,899.5 ³⁾
S Broker AG & Co. KG, Wiesbaden	100.00	29,800.4	1,220.8
Landesbank Berlin Investment GmbH, Berlin	100.00	10,660.0	3,188.1 ³⁾
Deka Real Estate Lending k.k., Tokyo	100.00	5,266.7	–1,898.6
bevestor GmbH, Frankfurt/Main (ehemals: Deka Vermögensmanagement GmbH, Frankfurt/Main)	100.00	3,600.0	–1,520.0 ³⁾

Name, location	Equity interest in %	Equity¹⁾ €'000	Result²⁾ €'000
Deka Beteiligungsgesellschaft mbH, Frankfurt/Main	100.00	2,947.8	69.0
Deka Vermögensverwaltungs GmbH, Frankfurt/Main	100.00	365.4	-123.0 ³⁾
Deka Investors Spezial InvAG m.v.K. u. TGV (TGV Unternehmensaktien), Frankfurt/Main	100.00	269.3	-6.3
Deka Treuhand GmbH, Frankfurt/Main	100.00	110.7	12.7
Privates Institut für quantitative Kapitalmarktforschung der DekaBank GmbH, Frankfurt/Main	100.00	49.3	-0.2 ³⁾
LBG Leasing Beteiligungs-GmbH, Frankfurt/Main	100.00	32.0	-0.1
Deka Treuhand Erwerbsgesellschaft mbH, Frankfurt/Main	100.00	25.0	-8.0 ³⁾
Deka Vorratsgesellschaft 03 mbH, Frankfurt/Main	100.00	24.8	-1.4 ³⁾
Deka Vorratsgesellschaft 04 mbH, Frankfurt/Main	100.00	24.8	-1.4 ³⁾
Deka Vorratsgesellschaft 05 mbH, Frankfurt/Main	100.00	24.8	-1.4 ³⁾
Deka Verwaltungs GmbH, Frankfurt/Main	100.00	22.0	-0.2
WestInvest Gesellschaft für Investmentfonds mbH, Düsseldorf	99.74	11,338.6	7,878.6 ³⁾
WIV GmbH & Co. Beteiligungs KG, Frankfurt/Main	94.90	12,864.1	764.1
WIV Verwaltungs GmbH, Frankfurt/Main	94.90	66.0	2.0
Equity investments			
S-PensionsManagement GmbH, Cologne	50.00	48,255.0	-65,158.3
Dealis Fund Operations GmbH i.L., Frankfurt/Main	50.00	18,932.8	145.5
Deka-Neuburger Institut für wirtschaftsmathematische Beratung GmbH, Frankfurt/Main	50.00	18.8	2.7
Indirect shares in affiliated companies			
Deka International S.A., Luxembourg	100.00	121,504.4	44,041.0
International Fund Management S.A., Luxembourg	100.00	14,666.2	5,006.9
Deka Immobilien Luxembourg S.A., Luxembourg	100.00	1,447.6	549.7
Deka Far East Pte. Ltd., Singapur	100.00	173.3	11.2
Deka Immobilien Beteiligungsgesellschaft mbH, Frankfurt/Main	100.00	158.6	5.0
Deka Real Estate Services USA Inc., New York	100.00	129.6	37.8
S Broker Management AG, Wiesbaden	100.00	55.4	-51.6
Perfeus S.A., Luxembourg	100.00	47.9	5.6
Datogon S.A., Luxembourg	100.00	43.0	5.1
Europäisches Kommunalinstitut S.à.r.l., Luxembourg	100.00	8.2	-0.7
Indirect equity investments			
Sparkassen Pensionskasse AG, Cologne	50.00	87,352.0	3,099.0
Sparkassen Pensionsfonds AG, Cologne	50.00	5,189.0	-432.0
Sparkassen PensionsBeratung GmbH i.L., Cologne	50.00	60.0	6.0
Heubeck AG, Cologne	30.00	5,884.0	1,724.0
Richttafeln-Unterstützungskasse GmbH, Cologne	30.00	264.0	181.0
Compendata Gesellschaft zur Verwaltung von Vorsorgeeinrichtungen mbH, Cologne	30.00	173.0	58.0
Dr. Heubeck Ges. mbH, Viena	30.00	146.0	-4.0
Heubeck Richttafeln GmbH, Cologne	30.00	74.0	17.0
DPG Deutsche Performancemessungs-Gesellschaft für Wertpapierportfolios mbH, Frankfurt/Main	20.00	4,446.2	747.1

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 €5.1m for HELICON Verwaltungsgesellschaft mbH & Co. Immobilien KG, Pullach (previous year: €5.1m).

There is an additional funding obligation for the security reserve of the *Landesbanken* and *Girozentralen* of €97.6m (previous year: €99.4m). By 2024, the assets of the security reserve must be increased to the statutory target level of 0.8% of the covered deposits of its member institutions. The security reserve collects annual levies from its members for this purpose.

Notes to the balance sheet

7 Due from banks

€m	31 Dec 2016	31 Dec 2015
This item includes:		
Loans to		
affiliated companies	71.6	563.9
companies in which an interest is held	90.1	–
Subordinated loans	–	–
Sub item b, (other claims) – breaks down according to residual term to maturity as follows:		
less than three months	2,612.6	2,870.9
> three months to one year	1,423.1	1,934.7
> one year to five years	3,193.7	5,094.3
more than five years	1,473.3	1,357.9
	8,702.7	11,257.8
Used as cover funds	636.0	779.5

8 Due from customers

€m	31 Dec 2016	31 Dec 2015
This item includes:		
Loans to		
affiliated companies	210.7	235.6
companies in which an interest is held	57.2	57.8
Subordinated loans	–	–
This item breaks down by residual term to maturity as follows:		
with indefinite term to maturity	1,126.9	761.0
less than three months	2,031.3	1,071.0
> three months to one year	989.4	1,224.2
> one year to five years	8,004.7	7,707.9
more than five years	5,113.5	4,954.2
	17,265.8	15,718.3
Used as cover funds	3,128.6	3,031.6

9 Bonds and other fixed-interest securities

€m	31 Dec 2016	31 Dec 2015
The marketable securities comprising this item include:		
listed	16,331.4	12,162.9
unlisted	346.3	346.9
Subordinated securities	35.8	35.3
Due within one year	3,510.1	1,400.5
Used as cover funds	272.5	483.3
Book value of securities valued according to the diluted lower of cost or market principle	2,542.4	2,783.5
Book value of securities reported at more than fair value	470.8	468.5
Market value of securities reported at more than fair value	466.6	459.0

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

10 Shares and other non-fixed interest securities

€m	31 Dec 2016	31 Dec 2015
The marketable securities comprising this item include:		
listed	–	–
unlisted	1,108.1	1,591.0
Subordinated securities	–	–

11 Trading portfolio (assets)

This item breaks down as follows:

€m	31 Dec 2016	31 Dec 2015
Derivative financial instruments	7,199.4	9,798.7
Receivables	15,720.5	19,280.1
Bonds and other fixed-interest securities	6,681.8	23,040.4
Shares and other non fixed-interest securities	1,107.0	2,603.9
Other assets	0.1	0.1
Risk mark-down	–29.6	–29.5
	30,679.2	54,693.7

12 Equity investments

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

13 Shares in affiliated companies

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

14 Trust assets

The reported trust assets comprise amounts due from banks of €68.6m and amounts due from customers of €85.3m.

15 Tangible assets

This item comprises property, plant and equipment amounting to €13.9m (previous year: €14.1m).

16 Changes in fixed assets

Asset items	Cost of acquisition/ production	Additions	Disposals	Accumulated depreciation/ amortisation	Depreciation/ amortisation for the year	Book value	
						31 Dec 2016	31 Dec 2015
		Changes +/- ¹⁾					
Equity investments			-7.7			39.4	47.1
Shares in affiliated companies			16.5			472.8	456.3
Securities held as fixed assets			-241.1			2,542.4	2,783.5
Intangible assets	129.4	16.0	0.0	120.6	9.0	24.8	17.9
Tangible assets	57.9	1.1	0.0	45.1	1.4	13.9	14.1
Total						3,093.3	3,318.9

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

17 Other assets

€m	31 Dec 2016	31 Dec 2015
This item includes amongst others:		
Tax refund claims	144.8	119.3
Premiums paid and margins for derivative financial instruments	0.5	10.7

18 Prepaid expenses and accrued income

€m	31 Dec 2016	31 Dec 2015
This item includes:		
Premium/discount from underwriting and lending business	16.2	7.5
Prepaid expenses and accrued income – derivative financial instruments	397.5	21.8

19 Genuine repurchase agreements

As at 31 December 2016, the book value of lent securities or securities sold under repurchase agreements amounts to €2,500.5m (previous year: €2,479.1m). Pass-through securities lending transactions of €6,968.9m (previous year: €6,382.8m) were also carried out.

20 Collateral transfer for own liabilities

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

€m	31 Dec 2016	31 Dec 2015
Due to banks	598.3	278.3
Due to customers	558.5	523.0
Trading portfolio (liabilities)	9,926.5	18,154.0

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 €1,049.3m (previous year: €1,085.5m) were pledged as collateral for transactions on German and foreign futures exchanges.

21 Investment Shares

€m	Book value 31 Dec 2016	Market value 31 Dec 2016	Difference market value – book value	Distribution 2016	Daily redemption possible	Omitted depreciation
Equity funds	236.5	241.8	5.3	5.4	Yes	No
Bond funds	720.9	721.8	0.9	5.1	Yes	No
Mixed funds	2,047.8	2,426.2	378.4	1.0	Yes	No
Funds of funds	3.6	3.9	0.3	0.0	Yes	No
Other funds	382.8	395.6	12.7	0.8	No	No
Real estate funds	86.9	87.2	0.4	0.0	No	No
Total	3,478.5	3,876.5	398.0			

22 Due to banks

€m	31 Dec 2016	31 Dec 2015
This item includes:		
Liabilities to		
affiliated companies	1,552.7	571.4
companies in which an interest is held	–	–
Sub item b (with agreed maturity or period of notice) breaks down by residual term to maturity as follows:		
less than three months	5,483.3	5,631.0
> three months to one year	4,053.9	4,883.6
> one year to five years	2,677.7	1,731.6
more than five years	1,217.5	1,493.9
	13,432.4	13,740.1

23 Due to customers

€m	31 Dec 2016	31 Dec 2015
This item includes:		
Liabilities to		
affiliated companies	335.4	439.7
companies in which an interest is held	141.6	93.9
Sub item b (with agreed maturity or period of notice) breaks down by residual term to maturity as follows:		
less than three months	4,214.2	5,574.3
> three months to one year	1,428.8	3,221.3
> one year to five years	2,373.1	1,996.3
more than five years	1,979.6	2,245.4
	9,995.7	13,037.3

24 Securitised liabilities

€m	31 Dec 2016	31 Dec 2015
Proportion of sub item a (issued bonds) maturing in the following year	1,197.8	1,641.6
Sub item b (other securitised liabilities) breaks down by residual term to maturity as follows:		
less than three months	2,368.5	10,501.7
> three months to one year	382.2	2,812.0
	2,750.7	13,313.7

25 Trading portfolio (liabilities)

This item breaks down as follows:

€m	31 Dec 2016	31 Dec 2015
Derivative financial instruments	7,411.8	10,148.6
Liabilities	23,750.3	30,699.5
	31,162.1	40,848.1

26 Trust liabilities

Trust liabilities comprise €68.6m in amounts due to banks and €85.3m in amounts due to customers.

27 Other liabilities

€m	31 Dec 2016	31 Dec 2015
This item includes:		
Foreign exchange equalisation items	818.1	979.5
Bonuses for sales offices	94.1	89.6
Trade payables	37.4	31.3
Share of profit attributable to atypical silent partners	86.3	11.7
Due to custodial customers	11.1	1.8
Premiums received and margins for derivative financial instruments	0.0	0.6

28 Provisions for pensions and similar commitments

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

in %	31 Dec 2016
Pension trend for adjustments according to Section 16 (2) Company Pensions Fund Act (BetrAVG)	1.75
Pension adjustment with overall trend updating	2.25
Salary trend	2.50

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

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

Provisions for pensions and similar commitments are discounted at the average market interest rate of the past 10 years published by Deutsche Bundesbank for an assumed residual time to maturity of 15 years. This interest rate stands at 4.01%. The difference arising under Section 253 (6) HGB between the amount of provision recognised when discounting using an average market interest rate of the past 10 financial years, and the provision amount when discounting using an average market rate of the past seven financial years, is €32.9m.

€m	31 Dec 2016
Pension provisions	8.1
Acquisition cost of plan assets	285.7
Fair value of plan assets	401.8
Settlement amount of offset liabilities	409.9
Income from plan assets	9.7
Expenses for adding interest	15.6

The valuation of cover assets at fair value produces an amount that exceeds the historical cost of these assets of €116.1m, which is not blocked for distribution in accordance with Section 268 (8) HGB, since the free reserves of the company exceed this figure.

29 Accruals and deferred income

€m	31 Dec 2016	31 Dec 2015
This item includes:		
Premiums/discounts from underwriting and lending business	11.2	9.7
Accruals and deferred income – derivative financial instruments	100.0	3.6

30 Subordinated liabilities

€m	31 Dec 2016	31 Dec 2015
Expenses from subordinated liabilities	66.6	48.9
Accrued interest on subordinated liabilities	43.0	43.8

Borrowings structured as follows:

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

There were no new issues during the 2016 financial year.

31 Equity

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

€m	31 Dec 2016	31 Dec 2015
a) Subscribed capital		
Subscribed capital	191.7	191.7
Typical silent capital contributions	203.8	203.8
Atypical silent capital contributions	52.4	52.4
b) Capital reserves	189.4	189.4
c) Retained earnings		
Reserves required by the Bank's statutes	51.3	51.3
Other retained earnings	114.1	114.1
Balance sheet equity	802.7	802.7

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

32 Contingent and other liabilities

The off-balance sheet contingent liabilities amounting to €2,715.8m (previous year: €2,302.1m) 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 €2,576.2m (previous year: €2,159.1m) and irrevocable loan commitments of €686.0m (previous year: €1,151.3m). Based on the credit rating analyses carried out, it can essentially be assumed that borrowers will meet their commitments and no utilisation is therefore expected. Loan provisions were recognised in individual cases where the default of the borrower is likely.

33 Foreign currency volumes

€m	31 Dec 2016	31 Dec 2015
Foreign currency assets	14,129.9	13,503.1
Foreign currency liabilities	7,009.0	9,792.3

Notes to the income statement

34 Net interest income

Net interest income includes negative interest income of €36.6m and positive interest expenses of €45.2m.

35 Net income from the trading portfolio

€31.5m (previous year: €26.0m) of the net income from the trading portfolio totalling €283.4m (previous year: €234.0m) was transferred to the fund for general banking risks in the reporting year

36 Other operating income

Other operating income consists mainly of €306.9m from Group offsetting and €5.6m from the reversal of provisions (including interest effect).

37 Other operating expenses

This item includes redundant €3.8m resulting from currency translation in the non-trading book, €13.0m in transfers to provisions (including interest effect) and €7.3m from Group offsetting.

38 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.

39 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.

40 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

41 Calculation of cover for mortgage and public sector lending business

Mortgage Pfandbriefe

Outstanding Pfandbriefe and cover pool assets

€m	Nominal value		Net present value ¹⁾	
	2016	2015	2016	2015
Outstanding mortgage Pfandbriefe	90.0	115.0	91.4	117.0
Cover pool mortgage Pfandbriefe	326.7	203.1	348.2	218.4
Overcollateralization	236.7	88.1	256.8	101.4
Overcollateralization as a % of outstanding	263.0	76.6	280.9	86.7

¹⁾ net present values according to vdp credit quality differentiation model

Outstanding Pfandbriefe and cover pool assets – risk adjusted net present value²⁾

€m	Risk-adjusted net present value +250 BP		Risk-adjusted net present value -250 BP		Risk-adjusted net present value Currency stress	
	2016	2015	2016	2015	2016	2015
Outstanding mortgage Pfandbriefe	87.9	111.8	91.1	116.9	87.9	111.8
Cover pool mortgage Pfandbriefe	322.9	210.4	348.7	218.4	322.9	210.4
Overcollateralization	235.0	98.6	257.6	101.5	235.0	98.6
Overcollateralization as a % of outstanding	267.4	88.2	282.8	86.9	267.4	88.2

²⁾ Net present value in accordance with the static approach pursuant to the Pfandbrief Net Present Value Directive (PfandBarwertV)

Outstanding and cover pool Pfandbriefe are denominated exclusively in euros.

Maturity structure

Maturity ranges	Outstanding mortgage Pfandbriefe		Cover pool mortgage Pfandbriefe	
	2016	2015	2016	2015
up to 6 months	5.0	10.0	88.2	0.0
> 6 months to 12 months	50.0	20.0	0.0	0.0
> 12 months to 18 months	0.0	5.0	0.0	88.7
> 18 months to 2 years	0.0	50.0	29.3	19.5
> 2 years to 3 years	30.0	0.0	0.0	29.3
> 3 years to 4 years	0.0	30.0	122.3	25.6
> 4 years to 5 years	0.0	0.0	20.2	40.0
> 5 years to 10 years	5.0	0.0	66.7	0.0
> 10 years	0.0	0.0	0.0	0.0
Total	90.0	115.0	326.7	203.1

Breakdown of cover pool assets by size

€m	Total nominal value	
	2016	2015
Ordinary cover:		
up to €0.3m ¹⁾	0.0	0.0
> €0.3m to €1.0m ¹⁾	0.0	0.0
> €1.0m to €10.0m ¹⁾	12.2	0.0
> €10.0m ¹⁾	274.5	163.1
Sub-total	286.7	163.1
Additional cover pool assets	40.0	40.0
Total	326.7	203.1

¹⁾ secured by mortgages

Additional information

	2016	2015
Share of fixed-interest assets outstanding (in %)	100.0	82.6
Share of fixed-interest assets in cover pool (in %)	66.2	43.7
Volume-weighted average age of receivables (in years)	2.9	3.7
Average weighted mortgage loan-to-value (in %)	59.1	47.3

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

Total amount of additional cover pool assets

€m	2016	2015
Cover pool assets according to		
Section 19 (1) no. 2 PfandBG		
based in: Germany	40.0	40.0
Thereof exposure in covered bonds according to Article 129 Regulator (EU) no. 575/2013	0.0	0.0

Breakdown of cover pool assets by type of use

Total amounts €m	Federal Republic of Germany		France		Total	
	2016	2015	2016	2015	2016	2015
Commercial use	149.7	48.8	137.0	114.3	286.7	163.1
Other cover pool assets ¹⁾	40.0	40.0	0.0	0.0	40.0	40.0
Total	189.7	88.8	137.0	114.3	326.7	203.1

¹⁾ including mandatory overcollateralization/safeguarding liquidity

Breakdown of cover pool assets by type of building

Total amounts €m	Federal Republic of Germany		France		Total	
	2016	2015	2016	2015	2016	2015
Office buildings	69.9	0.0	137.0	114.3	206.9	114.3
Retail buildings	29.3	29.3	0.0	0.0	29.3	29.3
Other commercial buildings	50.4	19.5	0.0	0.0	50.4	19.5
Other cover pool assets ¹⁾	40.0	40.0	0.0	0.0	40.0	40.0
Total	189.7	88.8	137.0	114.3	326.7	203.1

¹⁾ including mandatory overcollateralization/safeguarding liquidity

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

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

As in the previous year, no foreclosure sales were carried out in financial year 2016.

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

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

Public sector Pfandbriefe

Outstanding Pfandbriefe and cover pool assets

€m	Nominal value		Present value ¹⁾	
	2016	2015	2016	2015
Outstanding public sector Pfandbriefe	2,636.3	2,971.8	3,128.8	3,535.9
Cover pool public sector Pfandbriefe	3,710.4	4,091.3	4,119.5	4,545.9
Overcollateralization	1,074.1	1,119.5	990.7	1,010.0
Overcollateralization as a % of outstanding	40.7	37.7	31.7	28.6

¹⁾ net present values according to vdp credit quality differentiation model

Outstanding Pfandbriefe and cover assets – risk-adjusted net present values²⁾

€m	Risk-adjusted net present value + 250 BP		Risk-adjusted net present value – 250 BP		Risk-adjusted net present value Currency stress	
	2016	2015	2016	2015	2016	2015
Outstanding public sector Pfandbriefe	2,828.8	3,168.6	3,171.3	3,639.4	3,136.1	3,595.3
Cover pool public sector Pfandbriefe	3,886.9	4,258.2	4,162.0	4,624.5	3,993.4	4,482.1
Overcollateralization	1,058.1	1,089.7	990.7	985.1	857.3	886.8
Overcollateralization as a % of outstanding	37.4	34.4	31.2	27.1	27.3	24.7

²⁾ Net present value is calculated in accordance with the static approach pursuant to the Pfandbrief Net Present Value Directive (PfandBarwertV).

Maturity structure

Maturity ranges €m	Outstanding public sector Pfandbriefe		Cover pool public sector Pfandbriefe	
	2016	2015	2016	2015
up to 6 months	187.2	352.4	325.5	214.1
> 6 months to 12 months	129.5	37.0	68.5	176.6
> 12 months to 18 months	215.8	186.8	295.6	326.4
> 18 months to 2 years	336.0	134.5	170.7	119.9
> 2 years to 3 years	505.0	415.1	307.0	560.6
> 3 years to 4 years	129.2	512.5	173.4	312.7
> 4 years to 5 years	153.1	188.9	490.1	221.0
> 5 years to 10 years	664.7	777.1	1,370.2	1,573.0
> 10 years	315.8	367.5	509.4	587.0
Total	2,636.3	2,971.8	3,710.4	4,091.3

Breakdown of cover pool assets by size

€m	Total nominal values	
	2016	2015
Ordinary cover:		
up to €10.0m	39.2	78.5
> €10.0m to €100.0m	985.5	890.4
> €100.0m	2,645.7	3,007.4
Sub-total	3,670.4	3,976.3
Additional cover pool assets	40.0	115.0
Total	3,710.4	4,091.3

Additional information

€m	2016	2015
Share of fixed-interest assets outstanding (in %)	92.8	92.3
Share of fixed-interest assets in cover pool (in %)	61.5	66.9
Net present value for each foreign currency in €m:		
USD	365.8	151.1

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

Total amount of additional cover pool assets

€m	2016	2015
Cover pool assets according to		
Section 20 (2) no. 2 PfandBG		
based in: Germany	40.0	115.0
Thereof exposure in covered bonds according to Article 129 Regulation (EU) no. 575/2013	0.0	65.0

Distribution of cover pool assets

Total nominal value of cover pool assets by country / type	Sovereign		Regional authorities		Local authorities		Other debtors		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
€m										
Federal Republic of Germany	366.8	432.6	775.2	1,083.5	309.4	385.9	936.5	1,084.6	2,387.9	2,986.6
Canada	0.0	0.0	127.5	123.4	0.0	0.0	0.0	0.0	127.5	123.4
Latvia	0.0	0.0	0.0	0.0	69.9	35.2	0.0	0.0	69.9	35.2
Netherlands	33.1	2.3	0.0	0.0	0.0	0.0	0.0	0.0	33.1	2.3
Norway	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0	0.0
Poland	80.0	79.8	0.0	0.0	0.0	0.0	0.0	0.0	80.0	79.8
United States of America	328.0	380.5	0.0	0.0	0.0	0.0	0.0	0.0	328.0	380.5
United Kingdom of Great Britain and Northern Ireland	544.0	368.5	0.0	0.0	0.0	0.0	0.0	0.0	544.0	368.5
Total	1,451.9	1,263.7	902.7	1,206.9	379.3	421.1	936.5	1,084.6	3,670.4	3,976.3

Of which: guarantees from export credit agencies

€m	2016	2015
Federal Republic of Germany	366.8	422.6
Canada	0.0	0.0
Latvia	0.0	0.0
Netherlands	33.1	2.3
Norway	100.0	0.0
Poland	0.0	0.0
United States of America	328.0	380.5
United Kingdom of Great Britain and Northern Ireland	544.0	368.5
Total	1,371.9	1,173.9

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**42 Average number of staff**

Number	2016			2015		
	Male	Female	Total	Male	Female	Total
Full-time employees	1,594	661	2,255	1,536	646	2,182
Part-time and temporary employees	84	386	470	84	373	457
Total	1,678	1,047	2,725	1,620	1,019	2,639

43 Remuneration of Board members

€	2016	2015
Remuneration of active Board members		
Board of Management	5,118,807	4,139,595
Administrative Board	711,833	709,500
Remuneration paid to former Board members and surviving dependants		
Board of Management	4,886,565	4,913,459
Provisions for pension commitments to these persons	53,853,196	53,706,814

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

No loans or advances were granted to members of the Board of Management or Administrative Board. No guarantees or other commitments were entered into in favour of such persons.

In financial year 2016, variable remuneration elements in the amount of €2.5m (previous year: €4.2m) were committed to active and former members of the Board of Management, which are dependent on future performance.

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

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

The total benefits include deferred variable remuneration components from active members of the Board of Management in the amount of €1.9m and due to previous members of the Board of Management in the amount of €1.4m. Active members of the Board of Management are to receive an amount of €0.5m for financial year 2015, €0.6m for financial year 2014, €0.6m for financial year 2013 and €0.2m for financial year 2012.

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.

45 Post balance sheet events

No major developments of particular significance occurred after the 2016 balance sheet date.

46 Recommendation regarding appropriation of net profit

The proposed appropriation of net profit for the 2016 financial year amounting to €70,748,126.66 is as follows:

- Distribution of a dividend amounting to €67,296,998.54, i.e. 35.1% on existing shares in the Bank's subscribed capital (€191,729,340.56) that are entitled to dividends as at 31 December 2016.
- Distribution of a special dividend amounting to €3,451,128.12, i.e. 1.8% on existing shares in the Bank's subscribed capital (€191,729,340.56) that are entitled to dividends as at 31 December 2016.

Seats on supervisory bodies

47 Notes to seats on supervisory bodies (as at 12.01.2017)

Herr Michael Rüdiger (Chairman of the Board of Management)		
Chairman of the Supervisory Board (until 30.09.2016)	Deka Investment GmbH	Frankfurt/Main
Member of the Supervisory Board (from 01.01.2017 until 08.01.2017)		
Chairman of the Supervisory Board (from 09.01.2017)		
Member of the Supervisory Board	Evonik Industries AG	Essen
Member of the Supervisory Board	Deka Immobilien GmbH	Frankfurt/Main
Chairman of the Administrative Board	Liquiditäts-Konsortialbank GmbH i.L.	Frankfurt/Main
Chairman of the Supervisory Board (until 30.09.2016)	Landesbank Berlin Investment GmbH	Berlin
Dr. Georg Stocker (Deputy Chairman of the Board of Management)		
Deputy Chairman of the Supervisory Board (until 21.08.2016)	S Broker AG & Co. KG	Wiesbaden
Chairman of the Supervisory Board (from 30.09.2016)		
Deputy Chairman of the Supervisory Board (until 21.08.2016)	S Broker Management AG	Wiesbaden
Chairman of the Supervisory Board (from 22.08.2016)		
Member of the Supervisory Board (from 07.06.2016 until 19.06.2016)	bevestor GmbH	Frankfurt/Main
Chairman of the Supervisory Board (from 20.06.2016 until 12.10.2016)		

Manuela Better (Member of the Board of Management)		
Member of the Supervisory Board	Deutsche EuroShop AG	Hamburg
Member of the Supervisory Board (from 15.08.2016 until 21.08.2016)	S Broker AG & Co. KG	Wiesbaden
Deputy Chairman of the Supervisory Board (from 22.08.2016)		
Member of the Supervisory Board (from 15.08.2016)	S Broker Management AG	Wiesbaden
Deputy Chairman of the Supervisory Board	Landesbank Berlin Investment GmbH	Berlin
Deputy Chairman of the Supervisory Board	Deka Investment GmbH	Frankfurt/Main
Deputy Chairman of the Supervisory Board	Deka Immobilien Investment GmbH	Frankfurt/Main
Deputy Chairman of the Supervisory Board	WestInvest Gesellschaft für Investmentfonds mbH	Düsseldorf
Deputy Chairman of the Supervisory Board	Deka Immobilien GmbH	Frankfurt/Main
Member of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg

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
Deputy Chairman of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Deputy Chairman of the Supervisory Board	S-PensionsManagement GmbH	Cologne
Deputy Chairman of the Supervisory Board	Sparkassen Pensionskasse AG	Cologne
Chairman of the Supervisory Board	Sparkassen Pensionsfonds AG	Cologne
Managing Director	Deka Treuhand Erwerbsgesellschaft mbH	Frankfurt/Main

Martin K. Müller (Member of the Board of Management)		
Chairman of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Member of the Supervisory Board (from 15.08.2016)	S Broker AG & Co. KG	Wiesbaden
Member of the Supervisory Board	Sparkassen Rating und Risikosysteme GmbH	Berlin
Member of the Shareholder Committee	Dealys Fund Operations GmbH i.L.	Frankfurt/Main
Managing Director	Deka Treuhand Erwerbsgesellschaft mbH	Frankfurt/Main
Member of the Supervisory Board (from 04.03.2016 until 30.09.2016)	Deka Investment GmbH	Frankfurt/Main
Member of the Supervisory Board (until 09.05.2016)	Landesbank Berlin Investment GmbH	Berlin

Board members of DekaBank Deutsche Girozentrale**48 Notes to the Board members of DekaBank Deutsche Girozentrale (as at 31.01.2017)****Board of Management****Michael Rüdiger**

Chairman of the Board of Management

Dr. Georg Stocker

Deputy Chairman of the Board of Management

Manuela Better

Member of the Board of Management

Dr. Matthias Danne

Member of the Board of Management

Martin K. Müller

Member of the Board of Management

Administrative Board**Georg Fahrenschon**

Chairman

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

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

Helmut Schleweis

First Deputy Chairman

Chairman of the Board of Management of Sparkasse Heidelberg

Thomas Mang

Second Deputy Chairman

President of the Savings Banks Association of Lower Saxony

Additional representatives elected by the Shareholders' Meeting**Michael Bräuer**

Chairman of the Board of Management of Sparkasse Oberlausitz-Niederschlesien

Michael Breuer

President of the Rhineland Savings Banks and Giro Association

Rainer Burghardt

Chairman of the Board of Management of Kreissparkasse Herzogtum Lauenburg

Carsten Claus

Chairman of the Board of Management of Kreissparkasse Böblingen

Dr. Michael Ermrich

Executive President of Ostdeutscher Sparkassenverband

Dr. Johannes Evers

Chairman of the Board of Management of Berliner Sparkasse

President of the Savings Banks Association Berlin

Dr. Rolf Gerlach

President of the Savings Banks Association Westphalia-Lippe

Gerhard Grandke

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

Dr. Christoph Krämer

Chairman of the Board of Management of Sparkasse Iserlohn

Beate Läsch-Weber

President of the Savings Banks Association Rhineland-Palatinate

Ludwig Momann

(from 17.03.2016)

Chairman of the Board of Management of Sparkasse Emsland

Dr. Ulrich Netzer

President of the Savings Banks Association Bavaria

Hans-Werner Sander

(until 31.12.2016)

Chairman of the Board of Management of Sparkasse Saarbrücken

Peter Schneider

President of the Savings Banks Association Baden-Württemberg

Georg Sellner

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

Walter Strohmaier

Chairman of the Board of Management of Sparkasse Niederbayern-Mitte

Dr. jur. Harald Vogelsang

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

Alexander Wüerst

Chairman of the Board of Management of Kreissparkasse Cologne

Employee representatives appointed by the Staff Committee

Michael Dörr

Chairman of the Staff Committee of DekaBank Deutsche Girozentrale

Erika Ringel

Member of the Staff Committee of DekaBank Deutsche Girozentrale

Representatives appointed by the Federal Organisation of Central Municipal Organisations

Dr. Stephan Articus

(until 31.05.2016)

Executive Director of the Presiding Board of the German Association of Cities

Helmut Dedy

(from 01.06.2016)

Managing Director of the German Association of Cities

Prof. Dr. Hans-Günter Henneke

Managing Member of the Presiding Board of the German County Association

Roland Schäfer

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

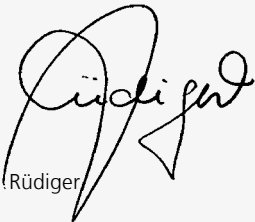
Assurance of the Board of Management

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

Frankfurt/Main, 24 February, 2017

DekaBank
Deutsche Girozentrale

The Board of Management



Rüdiger



Dr. Stocker



Better



Dr. Danne



Müller

Auditor's Report

We have audited the annual financial statements, comprising balance sheet, income statement and notes to the financial statements, together with the bookkeeping system, and the management report of the DekaBank Deutsche Girozentrale AöR, Berlin/Frankfurt am Main for the business year from January 1, 2016 to December 31, 2016. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law (and supplementary provisions of the shareholder agreement/articles of incorporation) 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 supplementary provisions of the shareholder agreement/ articles of incorporation) and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements, complies with the German statutory requirements, and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, February 27, 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Pukropski
Wirtschaftsprüfer

Fox
Wirtschaftsprüfer

Glossary

Additional Tier 1 bond (AT1 bond)

Non-cumulative, fixed-interest bearer bond issued by DekaBank as Additional Tier 1 capital with subsequent adjustment of its interest rate and an unlimited term. If the Common Equity Tier 1 capital ratio falls below a set minimum, the nominal and redemption values of the bearer bond may be reduced in specific circumstances.

Advisory/management mandate

External fund which is managed by a capital management company (*Kapitalverwaltungsgesellschaft – KVG*) of the Deka Group. For advisory mandates, the KVG acts only as an adviser, i.e. the external management company must verify compliance with investment restrictions in advance. For management mandates, however, investment decisions are made, verified and implemented by the KVG of the Deka Group.

Core business

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

Cost/income ratio (CIR)

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

Economic result

As a key management and performance indicator, together with economic risk, the economic result forms the basis for risk/return management in the Deka Group and is, in principle, determined in accordance with accounting and measurement policies of IFRS. As well as net income before tax, the economic result also includes changes in the revaluation reserve before tax as well as the interest rate and currency related valuation result from original lending

and issuance business. The interest expense in respect of AT1 bonds (Additional Tier 1 capital), which is recognised directly in equity, is also included in the economic result. Furthermore, the economic result takes into account potential future charges that are considered possible in the future but that are not yet permitted to be recognised under IFRS due to the fact that accurate details are not yet available. The economic result is therefore a control variable on an accrual basis whose high level of transparency enables recipients of the external financial reporting to consider the company from the management perspective.

Fully loaded (regulatory capital ratio)

Capital ratio calculated by applying the set of regulations stipulated in the Capital Requirements Regulation (CRR) and Capital Requirements Directive IV (CRD IV) in full, i.e. without taking account of the applicable transitional provisions.

Fund assets (according to BVI)

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

Net funds inflow (according to BVI)

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

Net sales

Performance indicator of sales success in asset management and certificate sales. This figure essentially consists of total direct sales of mutual and special funds, fund-based asset management, funds of partner organisations, master funds and advisory/management mandates, ETFs and certificates. Sales generated through proprietary investment activities are not taken into account. Redemptions and maturities are not taken into account for certificates, since in the certificates business the impact on earnings primarily occurs at the time of issue.

Non-core business

Positions from credit and capital market business that are not suitable for Asset Management or to realise synergies with Asset Management constitute non-core business. At the Deka Group, these positions have been separated internally. They are reported separately from core business and reduced while at the same time safeguarding assets. The portfolio essentially consists of legacy business with securitised and structured products and the volume is now relatively small.

Payments to the alliance partners

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

Phase in (regulatory capital ratio)

Capital ratio calculated by applying the set of regulations stipulated in the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV) and taking account of the applicable transitional provisions.

Primary/institutional customers

The Deka Group's primary customers are the German savings banks and their customers. The products sought by primary customers are also offered to other institutional customers. These include in particular insurance companies, pension funds and foundations but also German public-sector institutions.

Return on equity (RoE)

The RoE reflects the payment of interest on capital provided by shareholders. The Deka Group calculates this ratio as the economic result divided by equity at the start of the year, including atypical silent capital contributions.

Revaluation reserves

Revaluation reserves are a component of IFRS equity on the balance sheet. They include revaluations of net liabilities arising from defined benefit obligations (actuarial gains and losses), the effects of fair value measurement on financial instruments in the available for sale category – through other comprehensive income – and the effective portion of the change in fair value of hedging instruments arising from cash flow hedges, taking into account deferred taxes associated with these items.

Risk-bearing capacity

As a basic principle, risk-bearing capacity is used to determine the maximum level of risk that can be incurred (impacting the income statement), taking into account risk concentrations. To safeguard its risk-bearing capacity, the Deka Group primarily follows a liquidity-oriented approach

(liquidation approach), in which the particular focus is on ensuring the protection of creditors at all times in the hypothetical event of liquidation. This requires that even extremely rare risk situations are included in the analysis. The corresponding utilisation ratios for total risk-bearing capacity (risk capacity), the primary risk cover potential (maximum risk appetite) and the allocated risk capital (risk appetite) may not exceed 100%.

Risk cover potential

Following the liquidation approach, the risk cover potential (total risk-bearing capacity) essentially consists of equity under IFRS, income components and positions of a hybrid capital nature (subordinated capital), adjusted using amounts to correct for certain capital components such as intangible assets or risks arising from pension obligations. As a formal overall risk limit, it serves to guarantee the Bank's risk-bearing capacity. On this basis, a buffer is reserved for stress scenarios in order to reflect extreme market developments and turbulence in the context of risk-bearing capacity. This corresponds at a minimum to the level of subordinated capital components, including Additional Tier 1 capital. The primary risk cover potential (maximum risk appetite) – the primary control parameter for the allocation of risk capital – equates to the total risk-bearing capacity (risk capacity) minus the secondary risk cover potential.

Scenario analysis

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

Total customer assets

Total customer assets essentially comprise the income-relevant volume of mutual and special fund products (including ETFs) in the Securities and Real Estate business divisions, direct investments in cooperation partner funds, the portion of fund-based asset management attributable to cooperation partners, third party funds and liquidity, certificates, advisory/management mandates and third party managed master funds.

Wertpapierhaus

DekaBank is the Provider of Asset Management and Capital Market Solutions in the German Savings Banks Finance Group. Together with its subsidiaries it forms the Deka Group. In this capacity, the Deka Group offers the combined expertise of asset manager, financier, issuer, structurer, liquidity platform, clearing partner and custodian bank.

Internet website

The company financial statements are available to download in English and German on the website www.deka.de/deka-group under "Investor Relations/Reports".

Contact

Reporting & Rating
Thomas Hanke

email: investor.relations@deka.de
Phone: +49 (0) 69 71 47 - 0

This report was prepared in April 2017

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 2016 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.

„Deka

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 **Finanzgruppe**