DekaBank
Deutsche Girozentrale
Annual financial statements 2012

Content

Management report 2012 of DekaBank Deutsche Girozentrale

At a glance

Despite difficult economic conditions overall for the fund and capital market business, the DekaBank Group increased its economic result in 2012 by 35.6% to €519.3m, once again proving the strength of its business model. Although the sales situation remained unfavourable in asset management, net commission income was just 3% shy of the previous year's figure and exceeded the forecast. The modest decrease was countered by a pleasing increase in net interest income and net financial income. This growth was mainly attributable to the positive trend in our securities business with customers as well as the high level of demand from the savings banks and other institutional customers for liquidity and structured products. Total risk provisions were at the previous year's level and related almost entirely to the lending business. Unlike the previous year, no impairment of securities was required.

The added value contribution of DekaBank to the savings banks, which comprises the economic result and payments to the alliance partners, rose by approximately 12% to €1.3bn.

Net sales improved considerably in the course of the year and were clearly in the positive range in the second half of 2012. However, year-on-year, it remained in the negative range and therefore fell short of expectations.

The measures taken to integrate DekaBank into the investment process of the savings banks were consistently advanced in cooperation with the German Savings Banks and Giro Association (DSGV), the regional savings banks and giro associations and the savings banks. The greater support for advisers due to a broader range of available information, training and courses as well as the on-site presence of experienced sales executives has already had a positive impact on the participating savings banks. In terms of products, the focus was on the launch of Deka-BasisAnlage (Deka Basic Investment), which followed the successful start of Deka-Vermögenskonzept (Deka Wealth Concept) in the previous year and also supports the all-encompassing advisory approach. With the flagship products and stepped up sales efforts, DekaBank is even more firmly anchored in the *Sparkassen-Finanzgruppe*.

These campaigns culminated in the comprehensive D18 transformation programme towards the end of the year. Under this programme, DekaBank will gradually be transformed and expanded into a full-service provider for all securities-related business. The transformation process that was launched will ensure a sharper focus on the savings banks in all areas of the Bank: in production, sales, processing and in the corporate centres. The product range will be expanded to include the retail certificate business, which will be rolled out on a broad basis in 2013. Capital market business will also be tailored more precisely to customer requirements. This will be associated with strict management of risk assets. Regardless of the investment in the transformation programme, DekaBank intends to reduce administrative expenses as compared with the 2012 level through stringent cost management over the next few years, with the aim of achieving satisfactory economic results once again.

The core tier 1 capital ratio of the DekaBank Group amounted to 11.6% at year-end compared with 9.4% at the end of the previous year. In addition to the reinvestment of 2011 profit, the reduction in risk assets also impacted on the ratio. This was accompanied by a marked decrease in the utilisation of the overall risk-bearing capacity. Both also contributed to maintaining the Bank's strong ratings without qualification.

However, the core tier 1 capital ratio must be seen against the backdrop of the Basel III regulations that are yet to be implemented as well as other imminent new regulations. The implementation of Basel III alone will perceptibly reduce the ratio again. It is our declared aim to achieve a core tier 1 capital ratio of 12% by 2015. We will consistently pursue this goal, although it remains ambitious even in light of the pleasing year-end 2012 figure.

The transformation and expansion of DekaBank into the fully-fledged securities service provider of the savings banks is based on sound foundations.

Profile and strategy of the DekaBank Group

DekaBank is the central asset manager of the *Sparkassen-Finanzgruppe*. The aim is to transform and expand DekaBank into a full-service provider for all securities-related business. On 12 September 2012, the Administrative Board created the necessary prerequisites for achieving this goal.

Legal structure and corporate governance

DekaBank is a German institution incorporated under public law with registered offices in Frankfurt/Main and Berlin. DekaBank is wholly owned by the German savings banks. 50% of the shares are held via Deka Erwerbsgesellschaft mbH & Co. KG. The savings banks have pooled their shares in Deka Erwerbsgesellschaft mbH & Co. KG via the regional savings banks and giro associations affiliated with them. The other 50% of the shares are held by the German Savings Banks and Giro Association (DSGV ö. K.).

The DekaBank Group strictly adheres to the principles of good and responsible corporate management. The corporate governance concept for the management and supervision of the Group defines clear and distinct responsibilities for boards and committees and enables an efficient and streamlined decision-making process. As a member of the *Sparkassen-Finanzgruppe*, DekaBank is committed to the principles of subsidiarity and a focus on the greater good. They form the basis of the code of ethics, which provides binding guidelines for the actions of the corporate bodies and employees. It represents the basic structure of the DekaBank Group's corporate culture that complies with the law, is open, transparent and aimed at adding value.

DekaBank is jointly managed by the Board of Management, which comprises five members. With effect from 1 November 2012, the Administrative Board appointed Michael Rüdiger as the new CEO. At the same time, Oliver Behrens, who had been the acting Chairman of the Board of Management since Franz S. Waas stepped down on 2 April 2012, was appointed Deputy CEO, a newly created post. He is responsible for the Asset Management Capital Markets (AMK) business division and also for the Markets sub-division within Corporates & Markets (C&M), and is thus in charge of DekaBank's capital market based products. With effect from 1 August 2012, Dr. Georg Stocker took over responsibility for Savings Banks Sales in his capacity as a new member of the Board of Management. He succeeded Hans-Jürgen Gutenberger in this role, who retired on 31 July 2012. CFO Dr. Matthias Danne, who is also responsible for the Asset Management Property (AMI) business division and the two C&M sub-divisions Credits and Treasury, and Dr. h. c. Friedrich Oelrich, CRO, continue to be members of DekaBank's Board of Management. In January 2013, the Administrative Board appointed Martin K. Müller as a further member of the Board of Management. As a result, a change in the division of responsibilities is probable with effect from 1 April 2013 (see "Post balance sheet events").

The members of the Board of Management are supported by in-house management committees in an advisory capacity. DekaBank also actively incorporates the expertise of the *Sparkassen-Finanzgruppe* into its decision-making process via three advisory boards, which advise the Board of Management, as well as several sales committees. In accordance with the provisions of the Investment Act, the supervisory boards of German capital investment companies include external members in addition to members of the Bank's Board of Management.

The close cooperation of the Board of Management and Administrative Board is based on trust. The Administrative Board comprises representatives of the shareholders and employees as well as representatives from the *Bundesvereinigung der kommunalen Spitzenverbände* (German Federal Association of Central Municipal Organisations), who act in an advisory capacity. The work of the Administrative Board is performed in part by the full Board and in part by various committees. To this end, the Administrative Board has formed the General Committee, the Audit Committee and the Credit Committee. The German Federal Minister of Finance has the general governmental supervisory responsibility. Georg Fahrenschon, the new President of the DSGV, has chaired the Administrative Board since 16 May 2012. He took over the office from long-standing DSGV President Heinrich Haasis, who retired.

Organisational structure and locations

The business of DekaBank is managed from its head office in Frankfurt/Main. Most of the Group's capital investment and associate companies in Germany are also based there, including Deka Investment GmbH with responsibility for securities fund business as well as Deka Immobilien GmbH and Deka Immobilien Investment GmbH, which, together with WestInvest Gesellschaft für Investmentfonds mbH in Düsseldorf, are in charge of property-related asset management. The development, issue, marketing and management of exchange traded funds (ETFs) for institutional investors are the responsibility of ETFlab Investment GmbH in Munich. Important subsidiaries in international financial centres include DekaBank Deutsche Girozentrale Luxembourg S.A. in Luxembourg and Deka(Swiss) Privatbank AG in Zurich. The DekaBank Group also maintains companies and representative offices in Amsterdam, Brussels, London, Madrid, Milan, New York, Paris, Tokyo and Vienna.

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

DekaBank has pooled its business in the following divisions:

The Asset Management Capital Markets (AMK) business division covers the entire value-creation chain for securities fund business, including product development, portfolio management and fund and securities account services. At the end of 2012/beginning of 2013, AMK additionally took over responsibility for the ETF business. Private Banking Sales and the Institutional Customers business unit are also assigned to AMK at the organisational level.

The Asset Management Property (AMI) business division pools property fund business and Real Estate Lending (REL).

The Corporates & Markets (C&M) business division comprises capital market business, lending and Group Treasury. Until the end of 2012, C&M was also involved in the production of ETFs.

Savings Banks Sales and the Corporate Centres of DekaBank, which comprehensively support the business divisions and Sales, form the Other segment. As at the reporting date, the Corporate Centres encompassed Strategy & Communication, Group Audit, Legal Affairs, Human Resources, Group Risk, Finance, IT/Organisation, the Group COO and the Credit Risk Office.

Business activities that are being discontinued are consolidated in non-core business. This segment manages securitisation transactions and loans that no longer form part of the core business as well as public finance activities. The relevant portfolios are reduced while safeguarding assets.

DekaBank Group strategy

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

DekaBank's strategy is geared to increasing the corporate value on a sustained basis with the objective of serving the purposes of the *Sparkassen-Finanzgruppe*. The intention is to maintain an ambitious target rating through value-oriented growth combined with the efficient use of equity at the same time, as the rating is highly important in DekaBank's business model.

In close cooperation with its shareholders, DekaBank launched its strategic development plan in 2012 – from being the central asset manager to becoming the fully-fledged securities service provider of the savings banks. The robust and competitive business model, which is based on integrating core business in Asset Management with supporting activities in Capital Market business, will partly be revised based on the requirements of the savings banks and their end customers and expanded to include new activities.

On 12 September 2012, the Administrative Board resolved the expansion of business activities. DekaBank prepared the foundations for its transformation and expansion with a view to becoming a full-service provider for all securities-related business with the D18 transformation programme, which the Bank began in the fourth quarter of 2012. Important programme campaigns have already started, and the first major results are expected as early as this year. The transformation programme comprises core initiatives with a focus on the overall strategy, as well as product and customer related issues alongside cross-disciplinary aspects. The overriding goal is to position securities as an important segment in the formation of assets, in order to strengthen the savings banks' securities business in the long term.

Support for the savings banks in retail business

The investment and advisory process, which is geared to the savings banks' end customers, will be further developed in terms of the strategy, processes and organisation. DekaBank can build on the results of the joint project entitled "Securities Business in the *Sparkassen-Finanzgruppe* – New Challenges for Advisory Services" (*Wertpapiergeschäft in der Sparkassen-Finanzgruppe – neue Herausforderungen für die Beratung*), which is sponsored by the DSGV, regional savings banks and giro associations, savings banks and DekaBank. It supports the marketing of funds that Sales focuses on throughout the year. This is flanked by the increased presence of sales executives who support advisers and sales managers on site in the savings banks. The number of sales executives was increased by 14 during the reporting year. In addition, the savings bank advisers are supported via the information and services provided on DekaNet, the online adviser platform which was relaunched in 2012 in alignment with the requirements of the savings banks. Another measure taken is the introduction of training courses for specialist advisers and managers in the savings banks. At year-end 2012, a total of 130 savings banks were already utilising this "*Deka-Patenschmiede*" (Deka mentoring) programme.

The transformation into a fully-fledged securities service provider also comprises the further development of the private banking offering. DekaBank aims to intensify business relations with the partner savings banks in the Private Banking segment.

Further development of the product range in retail business

Starting in the first quarter of 2013, DekaBank will expand its range of securities for the formation of assets by private households to include certificates. The focus will be on issuing simple and transparent standard products, which are suitable for selling on a broad scale. They include equity linked bonds, interest rate products and capital protection certificates as well as express, discount and bonus structures. DekaBank has already been issuing individual certificates for investments by the savings banks and institutional customers for their own account for the past ten years. As a result, the Bank has an established infrastructure in this business segment. With the new DekaBank certificates, savings banks will now also be able to offer their customers bonds from a first-class issuer, the kind in which they themselves have been investing for many years.

In addition, DekaBank is examining further options for expanding its product range to include new items that meet the requirements of the savings banks and their customers. Factors for success in this respect include DekaBank's comprehensive experience based on its own issues for institutional investors, process reliability in trading and structuring, the strong rating and the proven sales platform which is run in partnership with the savings banks. At the same time, DekaBank is continually streamlining its range of funds, in order to minimise processing complexity for the savings banks and DekaBank itself to a feasible extent.

On recommendation of the Conference of Association Chairmen, of which the President of the DSGV and the President of the regional savings banks associations are members, DekaBank commenced negotiations with Landesbank Berlin (LBB) in December 2012 with the aim of acquiring its customer-oriented capital market business as well as the bank's wholly-owned subsidiary, LBB Invest. LBB Invest is an asset manager whose activities on behalf of private and institutional investors focus on mutual and special funds. The acquisition would provide further impetus for the ongoing development of the product range. Following the relevant analysis, the decisions by the corporate bodies of the two banks may be taken as early as summer 2013.

Support for the savings banks as institutional customers

This segment centres on further developing the range of products and services with the aim of meeting both the changed demand on the part of the savings banks as well as regulatory requirements. A particular focus is on expanding the Depot A (A securities account) as part of the savings banks' asset and liability management.

The extensive utilisation of DekaBank as liquidity centre is to be further promoted, partly by processing standardised OTC derivatives transactions. To this end, DekaBank registered (with clearing member status) with the London Clearing House (LCH), a central counterparty for derivatives transactions, in the third quarter of 2012. This direct access enables the savings banks to efficiently settle derivatives transactions that are not subject to a loss-sharing agreement with a central counterparty (CCP). In the context of the European Market Infrastructure Regulation (EMIR), DekaBank offers support to savings banks which conduct OTC derivatives transactions by enabling seamless integration.

Other focal points in institutional business relate to the further development of special funds management and overlay management for capital investments.

Group-wide optimisation processes

The IT mission project launched in 2010 will give DekaBank a competitive and flexible IT architecture, which is also intended to reduce costs. By 2014, the overall IT architecture will be migrated to an application environment that offers a high level of system stability and guarantees faster adaptation to new market developments at lower IT production costs. The savings banks will also benefit from this, since it facilitates a quicker response to customer requirements. Key developments during the year under review included the relaunch of DekaNet and new front office support for Asset Management. The new sales data warehouse is set to go live in 2013.

To successfully drive forward DekaBank's evolution into becoming the fully-fledged securities service provider of the savings banks and be able to absorb the necessary investments, even more stringent cost management than is implemented at present is required. The new centralised Cost Management unit set up at the end of 2012/beginning of 2013 is comprehensively reviewing the current cost structure and will manage a campaign aimed at increasing cost flexibility. The existing approaches to organisational and process optimisation as well as lean management will be integrated as part of this new project.

AMK business division

Products and services

The core business of AMK, which is DekaBank's largest business division, is the active management of securities funds as well as fund-linked asset management.

The business division's product range includes

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

In addition, all the necessary preparations were made in the reporting year for expanding the AMK business division's range of products and services to include passively managed exchange traded funds (ETFs) as of the beginning of 2013, which were previously assigned to C&M. AMK's services encompass all aspects of the investment custody business, including portfolio management, as well as contract and order processing. Fund accounting and some areas of fund administration are pooled in Dealis Fund Operations GmbH, a joint venture with Allianz Global Investors.

Influencing factors and competitive position

The business development and profit performance in AMK are mainly shaped by the capital market environment, the sales environment of the *Sparkassen-Finanzgruppe* and product quality. The factors mentioned above impact on the sales situation with regard to private and institutional investors as well as the performance of portfolios. In addition, changes relating to regulatory requirements are important.

The AMK fund assets (according to BVI) amounted to €145.1bn as at year-end 2012. Consequently, the DekaBank Group remained unchanged in its position as the third largest provider of mutual securities funds in the German market.

Strategy

The primary strategic aim of AMK is to provide the best possible support for the all-encompassing advisory approach that the savings banks offer to customers of the *Sparkassen-Finanzgruppe*. In terms of products, the measures implemented here focus on further stabilising product quality and concentrating on the product range. Moreover, AMK strives to deliver solutions based on new product concepts that meet customer requirements as they change in line with the capital market environment. With regard to the reporting year, the following should be highlighted:

- Deka-BasisAnlage as a savings plan or one-off investment concept for investing smaller amounts or capital-forming payments; four custody account versions are available, depending on the risk affinity of the savings bank customers,
- the Deka-Nachhaltigkeit (Deka Sustainability) product series, which lets investors invest in equity, bond or mixed funds that meet the specific criteria of sustainable investments,
- the Deka-RenteDirekt immediate pension solution, which offers a lifelong annuity in return for a one-off payment, and
- the Deka-Sachwerte (Deka Property) mixed fund, which invests in asset classes offering stable value and strong substance, such as equities, gold and properties.

AMK supports the customer advisers in the savings banks – together with Savings Banks Sales – for example by supplying model portfolios, expanding the range of information provided, enhancing the integration of sales-supporting processes in the IT systems of the savings banks and through intensified local sales support, which also includes training measures.

With its comprehensive, advice-centric offering, AMK also intends to further increase the loyalty of the savings banks' institutional customers to the Finance Group. The incorporation of ETFlab into AMK and the resultant enhanced integration forms part of this strategy.

AMK aims to use product, service and sales-related measures in the various investor segments to achieve a sustained positive net sales performance and strengthen the Bank's market position in the long term.

AMI business division

Products and services

AMI offers property investment products for private and institutional investors. In addition, AMI provides commercial property financing. As a result of the parallel activities in investment fund business and financing, AMI has the necessary access to property and investors in all major markets. The business division specialises in the following property segments: offices, shopping centres, hotels and logistics.

In the investment fund business, AMI focuses on the purchase, further development and sale of marketable commercial property in liquid markets. The subsidiary Deka Immobilien GmbH is responsible for the acquisition, sale and management of property worldwide as well as all other property fund services for all of the investment funds. The two capital investment companies, Deka Immobilien Investment GmbH and WestInvest Gesellschaft für Investmentfonds mbH, concentrate exclusively on active portfolio and fund management.

The product range in the investment fund business includes open-ended mutual property funds for private customers, as well as special funds and individual property funds for institutional customers – mainly the savings banks. The business division is also responsible for the fund management of credit funds alongside property financing and infrastructure loans.

In Real Estate Lending (REL), activities centre on markets, business partners and property types which are also relevant to investment fund business. Through its broad access to markets and investors, REL strengthens the expertise and business basis of AMI.

Influencing factors and competitive position

The attractiveness of property investments is decisively influenced by buying and selling opportunities, the price trend, the letting situation and the development in the value of the property portfolio. Another influencing factor is the money market rate, since liquid funds are invested for the short term. In property finance, factors that are typical in the lending business also play a major role, including creditworthiness, the loan structure and the trend in market interest rates.

The joint approach to investment fund and financing business is a significant competitive advantage over most competitors, despite the existing Chinese walls. With regard to open-ended mutual property funds, AMI is the market leader in Germany and among the ten largest asset managers in Europe. Worldwide, AMI is one of the top 20 businesses in the sector. Total fund assets, according to BVI, amounted to €23.8bn as at year-end 2012. The assets are divided across 457 properties in 25 different countries. With a gross loan volume of €7.7bn as at year-end 2012 (of which €1.6bn were attributable to property fund financing), REL is one of the most active providers of commercial property finance in the markets that it services.

Strategy

AMI aims to further strengthen its market position in asset management. This requires sustained performance, which AMI sets out to achieve through prudent sales management and the value-oriented development of the property portfolio. For this purpose, AMI ensures ongoing rejuvenation of the portfolio on the basis of a buy and sell policy that is aligned with the liquidity position and market situation. Key criteria in addition to the quality of properties increasingly include sustainability aspects as well. The share of certified green buildings in the overall portfolio will continue to be expanded in future.

With regard to the open-ended mutual property funds, the aim is to consolidate AMI's market leadership in Germany. At the same time, the business division intends to further leverage the market potential for institutional business. To supplement the existing funds, including the single-sector funds in the WestInvest TargetSelect series, solutions offering additional investment vehicles for the savings banks and other institutional investors are developed and launched on the market.

The strategic focus in REL remains the financing of commercial properties in selected markets in which the investment fund companies of the AMI business division also invest. This approach centres on comparatively conservative, less complex financing solutions, with a considerable percentage of the financing placed with institutional customers via syndication or in the form of fund assets.

C&M business division

Products and services

The C&M business division combines DekaBank's capital market and financing activities as well as Group Treasury. The focus is on the range of capital market and credit products for funding the savings banks and supporting Asset Management. C&M is divided into the Markets, Credits and Treasury sub-divisions.

Markets

The Markets sub-division is the central product and infrastructure provider as well as a service provider for the savings banks in DekaBank's capital market business. In the previous year, Markets was realigned and now concentrates even more strongly than before on customer business between the savings banks, DekaBank and the capital investment companies. In this connection, Markets provides the link between customers and the capital markets. To fully utilise the platform, services are also offered to selected customers outside of the *Sparkassen-Finanzgruppe*, in particular to banks, insurance companies and pension funds.

The Short Term Products (STP) unit pools all short-term capital market activities, such as short-term interest rate hedging and collateralised money market transactions. As a liquidity centre, STP supports savings banks with the short-term supply of liquidity. An important factor here is the repo/lending business, which generates liquidity as well as additional income for funds and the savings banks.

The Structuring & Trading (S&T) unit is DekaBank's centre of competence for trading and structuring capital market products and derivatives in all asset classes that are used by the funds and in the Depot A securities account of the savings banks or issued to other customers. S&T is also responsible for issuing bonds, including certificates. In addition, S&T's activities comprise bond trading as well as trading in interest rate and equity derivatives.

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

Credits

In Credits, the focus is on financing infrastructure measures, means of transport (ships and aircraft) and ECA-covered trade financing. Outside of savings bank finance, the Credits sub-division concentrates on loans which can be passed on to other banks or institutional investors. The sub-division is also the central point of contact for savings bank funding.

Treasury

The Treasury sub-division manages market price risks relating to the investment book, Group liquidity and Group refinancing. In addition, Treasury manages the Bank's surplus liquidity.

Influencing factors

The economic trend in C&M is subject, in particular, to the influence of the money and capital markets. Demand from savings banks and other counterparties for liquidity depends on the volume of liquidity allocated by the European Central Bank (ECB). The situation in the bond market has an impact on issuing activities as well as on the performance and risk development of the Treasury portfolio. Lending is partly influenced by the economic trend in the sectors to which financing is provided as well as by market interest rate developments. Furthermore, regulatory conditions have an impact.

Strategy

On the basis of its focused strategic approach, Markets is currently expanding its function as DekaBank's liquidity centre for supplying short-term liquidity to the savings banks, investment funds and other institutional customers as well as internally within the Bank.

STP responds to changing market and regulatory requirements by further developing the trading systems for largely automated and standardised repo/lending business as well as the close integration with product providers. Consequently, collateralised business is set to increase further, in line with expectations.

Based on the joint expansion of the trading platform with Deka Investment GmbH, selected savings banks and other institutional clients, additional services along the value-creation chain are to be offered in commission business. Growth opportunities in this connection will also arise in terms of developing and expanding business in the role of general clearer for futures and options.

With regard to structured solutions, in both traditional bond trading with *Pfandbriefe* and third party issuing business, Markets relies on the intensive cooperation with the sales units. The expertise in certificate issues for institutional customers will be transferred to the retail customer business upon the savings banks' request. In line with the requirements in private customer business, the number of issues will rise, while the minimum investment needed in each case will be a lower amount. The necessary platform is already in place.

In the future, Credits will continue to focus on the narrowly defined credit segments in which DekaBank has specific experience. In new business, any future exposure will also be linked to suitability for placement with third parties as part of the Bank's consistent management of risk-weighted assets (RWA). At the same time, DekaBank's role as the funding partner of choice and co-investor of the savings banks is to be strengthened further.

Treasury ensures the Group's liquidity and funding across all maturity bands and manages the interest rate risks and currency risks inherent in the banking book. In preparation for future regulatory requirements, an additional strategic liquidity reserve was already set up in 2012 and the funds transfer pricing concept was adjusted.

Non-core business

Business activities that are being discontinued have been pooled in non-core business. The portfolio essentially comprises corporate financing, leveraged loans, trade financing and non-ECA-covered export financing as well as securitised products, structured credit and non-*Pfandbrief* eligible financing of regional and local authorities.

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

Sustainable business policy

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

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

In the reporting year, oekom, one of the world's leading rating agencies in the sustainable investment segment, confirmed DekaBank's prime status and once again gave the Bank an overall score of C. This represents a recommendation by oekom in respect of DekaBank's issues and products for investors who take social and ecological aspects into consideration when investing. For the rating, oekom analysts examine a total of around 80 sustainability criteria relating to the social rating and environmental rating categories. Compared with the 2011 score, DekaBank improved its social rating by a notch, from C to C+.

Deka Investment GmbH became a signatory to the United Nations Principles for Responsible Investment (UN-PRI) in October 2012. By signing the PRI Initiative, institutional investors undertake to act sustainably and responsibly in the interests of society.

Risk and profit management at the DekaBank Group

DekaBank aims to gain interest on the capital invested in the Bank in an amount which will secure the corporate value as a minimum. This is to be achieved on the basis of an appropriate risk/reward ratio in the long term. In line with this goal, non-financial and financial performance indicators are used in the Bank's management. Comprehensive reporting on Group management indicates at an early stage whether strategic and operational measures are successful and whether DekaBank's risk/reward ratio is within the target range.

Non-financial performance indicators

The non-financial performance indicators relate to the various dimensions of the Bank's operations and are an indication of the success of the products and services of DekaBank's business divisions in the market and the efficiency of the business processes.

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

- net sales as the performance indicator of sales success. This figure essentially results from the total of direct sales of mutual and special funds of the DekaBank Group, fund-based asset management, the funds of cooperation partners and the master funds and advisory/management mandates. Sales generated through the Bank's own investments are not taken into account.
- assets under management (AuM). Key elements include the income-related volume of mutual and special fund products in the AMK and AMI business divisions, direct investments in cooperation partner funds, the cooperation partner fund, third party fund and liquidity portions of fund-based asset management as well as the advisory/management mandates. For comparative purposes within the scope of the BVI statistics, DekaBank continues to use the fund assets according to the BVI.
- the ratio of intra-alliance business (share of DekaBank products in total fund sales of the savings banks) to measure the Bank's acceptance in the *Sparkassen-Finanzgruppe* and the payments to the alliance partners, which in combination with the economic result reflect the Group's added value contribution in respect of its partners within the *Sparkassen-Finanzgruppe*.

In addition, staff-related key indicators are established, which are explained in the human resources report (see page 25).

Financial performance indicators

The DekaBank Group's risk, earnings and capital management is essentially illustrated by two central financial indicator concepts.

The monthly analysis of risk-bearing capacity involves comparing the Group's potential risk cover fund that may be used to cover losses with the Group risk, which is determined across all risk types that have an impact on profit or loss (see pages 35 to 37). This makes it possible to establish whether the total risk limits have been adhered to at the Group and divisional level. In addition, DekaBank strives to continually increase its corporate value by achieving the best possible economic results under the prevailing risk conditions at any given time.

The economic result is the central management and performance indicator and is based on the IFRS accounting standards. In addition to net income before tax, it includes changes to the revaluation reserve before tax as well as the interest rate and currency related valuation result from original lending and issuance business. Furthermore, tax-relevant effects are included in the economic result. These relate to potential charges that are taken into account in corporate management due to the management function of the economic result, but cannot yet be recorded in IFRS reporting at the present time due to the lack of sufficient reliability.

As a result of the mixed model approach, net income before tax under IFRS is affected by the different principles used for the valuation of the various assets and liabilities. This in turn means that not all income components which are relevant to the management's assessment of the profit situation are taken into account. In particular, net income before tax excludes both changes in the revaluation reserve, which reflects the valuation result for securities in the available for sale (afs) category, and the interest rate-induced valuation result from hedged underlying transactions (loans and own issues) outside of hedge accounting under IAS 39.

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

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

Other financial performance indicators are return on equity and the cost/income ratio. In addition to the key indicators concerning risk-bearing capacity, the capital ratio in accordance with the Solvency Regulation (SolvV) and the core tier 1 capital ratio are of primary importance for assessing the adequacy of the total amount of capital and reserves of the DekaBank Group in line with regulatory requirements.

RWA are managed taking into account the Group strategy, balance sheet structure and capital market environment. DekaBank's aim is to maintain its core tier 1 capital ratio at or above the target of 12% on a permanent basis. This target has yet to be met following the acquisition of the Bank's own shares in 2011.

Funding via the capital market constitutes an important aspect of DekaBank's business model. Here, the Bank has positioned itself as a reliable partner. This is documented by correspondingly strong capital market ratings from leading international rating agencies, which are appropriate to the business model.

Economic environment

Overall assessment of economic environment

DekaBank conducted its business in the face of challenging economic conditions in 2012.

In securities-related asset management, investor uncertainty as a result of the banking and debt crisis impacted on the sales situation, as did the gloomier global economic growth prospects. The marked need for safety on the part of investors was reflected in high inflows into bond funds as well as in the negative overall net funds inflow into other mutual securities funds. Despite their positive performance, the importance of funds for the purpose of asset formation diminished further.

DekaBank's open-ended mutual property funds were in high demand among private investors in 2012. This demand was boosted by the trend towards investing in inflation-proof tangible assets.

In addition, the low interest rate level generated a high level of demand for *Pfandbriefe* and corporate bonds, which in turn prompted issuing activities. The central banks' comprehensive supply of liquidity to the markets resulted in a sharp decrease in interest rates in the money market, down into the negative range. This made it increasingly difficult to find acceptable investment products in the short maturity bracket. The de-escalation of the national debt crisis in the eurozone led to a drop in bond yields and risk premiums. This impacted positively on the valuation of capital market products and the risk position.

Imminent regulatory changes and regulatory adjustments under discussion contributed to uncertainty among investors and at the same time pushed up costs due to the stricter reporting and capital requirements.

National debt crisis in the eurozone

The national debt crisis in the peripheral countries continues to act as the major dominating influence for the capital markets within the eurozone. However, the extent of market distortions has markedly decreased since mid-year. In this respect, the decisive factor was the ECB's announcement that it would buy government bonds in an unlimited volume if necessary (Outright Monetary Transactions Programme or OMT programme). The announcement alone significantly reduced risk premiums on government bonds from the crisis-stricken countries. However, the prerequisite for utilisation is that the governments of the countries concerned first agree on a bailout programme under the European Stability Mechanism (EFSF) and the European Financial Stability Facility (ESM), respectively. This in turn requires structural reforms with a view to budget consolidation.

This consolidation in the crisis countries progressed with different levels of intensity. Greece and Portugal have made the most advances, although the austerity measures were overshadowed by the collapse of economic output. Spain and Ireland also achieved some progress, whereas Italy and France still face sweeping structural reforms. The still evident backlog of reforms continues to represent a risk to the stability of the eurozone. The adjustment of the banks' balance sheets is in particular progressing slowly, which is preventing a revival of economic growth.

The willingness of European countries to extend the duration of the current adjustment programme in Greece and make additional funds available for it increased in the course of 2012. Most recently, a waiver of 50% of the debt by public sector creditors was up for debate (without the ECB and the International Monetary Fund). The buyback of existing Greek debt provided the prerequisite for further aid, which was completed in December 2012 and reduced the debt level. The risk of a Greek exit with potentially severe consequences for the stability of the financial markets in the eurozone has therefore diminished for the time being. However, in the medium term, there is still the risk of the adjustment programme failing and that the capacity to carry Greek government debt will become unrealistic. As a result, potential setbacks continue to be considerable in the capital markets and in the real economic environment within the eurozone.

Overall economic trends

In 2012, global economic growth slowed down, not least due to the crisis-like conditions in the southern periphery of the eurozone. Alongside the disappointing trend in the industrialised countries, particularly in the eurozone, the slowdown in economic growth impacted on the emerging markets, which rely heavily on exports. At 7.8%, China failed to match the previous year's growth, but remained stronger than some observers had expected. In Central and Eastern Europe, the dependency on exports to Western Europe had a negative effect.

In the industrialised countries, economic growth decelerated overall. The USA achieved initial successes in the labour market, with regard to the indebtedness of private households and in the housing market with a combination of expansionary monetary and financial policy. As a result of weak investment activities, the country's economic output nevertheless only increased by 2.3%. The eurozone as a whole slid into a mild recession in the second half of the year. The recession particularly deepened in the crisis-stricken countries, which are forced to adopt a restrictive budgetary policy. At the same time, Germany saw a far steadier trend, recording a slight increase of 0.7% for the full year. On the one hand, companies were partly able to compensate for domestic sales losses with strong exports to the emerging markets and on the other, consumption had a stabilising effect. However, the debt crisis has also left its mark on Germany. Companies have responded to the prevailing uncertainty with lower investments in machinery and inventory. Consequently, economic growth slowed down considerably in the course of the year and a slightly negative growth rate was eventually recorded in the fourth quarter of 2012.

The central banks responded to weak economic data and a decrease in lending by continuing their expansionary monetary policy. The ECB reduced the key funding rate by 25 basis points to 0.75% in July 2012. At the same time, it adhered to its policy of making unlimited liquidity available to the euro system. In so doing, it pushed the money market interest rate as well as yields on benchmark bonds down to a historical low.

Ultimately, a new normal has emerged in the financial markets, and DekaBank believes this new situation will persist for many years. It is marked by very low and in some cases negative nominal interest rates, a sharp rise in the money supply from central banks, a high level of government bonds on the central bank side – partly with below average ratings – and abbreviated bank balance sheets.

The expansion of the money supply is associated with a higher risk of inflation. Due to slower economic growth, a downturn in commodities prices and restrictive lending by banks, however, this risk did not materialise in 2012. Nevertheless, the continuing low interest rate environment in the money and bond markets – combined with positive growth rates in Germany – increase the threat of a real interest rate trap. However, as a result of the pronounced need for safety on the part of bank customers, this has not had a major impact on investment behaviour to date.

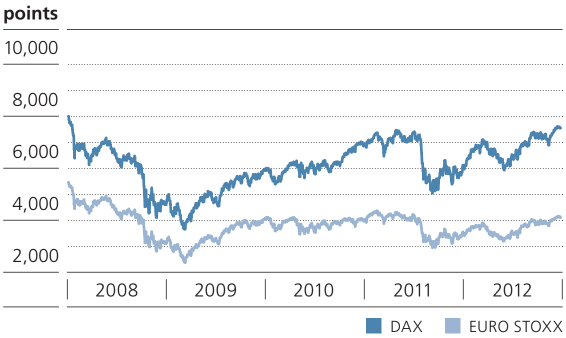
Trends in capital markets

In 2012, there was a positive trend in the equity markets of many countries. The DAX closed the year up 29% (Fig. 1); and second-tier and technology stocks also recorded a double-digit increase on average. After a volatile first half of the year, stimulating forces prevailed around mid-year. In particular, the above-mentioned OMT programme improved sentiment among financial market analysts and ensured an upward trend in share prices. This was supplemented by relief following the decision of the German Federal Constitutional Court to reject the urgent motions against the euro bailout fund, which means that nothing now stands in the way of Germany participating in ESM.

In addition, many companies exceeded the restrained expectations of analysts in the course of the year. The share prices quoted at the end of the year reflected the expectation that global growth would pick up and the euro crisis was under control. The general understanding is that the European Monetary Union rather than being an economic undertaking is of a political nature, and there is a common interest in maintaining the euro.

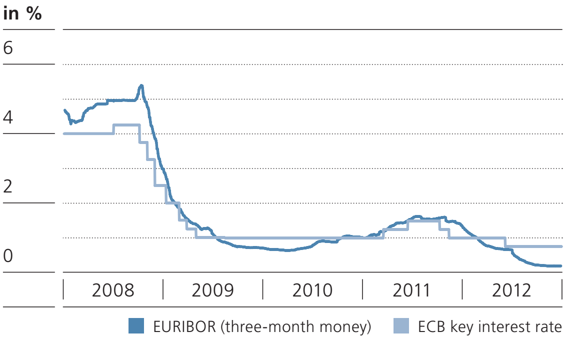
The bond markets were still firmly dominated by the eurozone crisis in the first half of 2012. In June, risk markdowns on German government bonds were at a record high. Hopes of massive support from the ECB then reduced yields considerably, especially those on government bonds with short maturities from the peripheral eurozone countries. Conversely, for a short period, German government bonds with long maturities were negatively affected. In contrast, yields at the short end of the Bund curve remained well anchored by the low interest rate of the ECB on deposits and the ample liquidity supply of banks (Fig. 2). The reduced risk of a crisis in combination with low interest rates meant that emerging market bonds remained attractive and the previously increased spreads tightened again.

Performance of the DAX and EURO STOXX 2008–2012
(Fig. 1)



Source: Bloomberg

EURIBOR and eurozone key interest rate 2008–2012
(Fig. 2)



Source: ECB, Bloomberg

The demand for corporate and bank bonds was high, not least as a result of strong company figures. This was supported by the major central banks supplying liquidity on a massive scale. In the second half of the year, in particular, numerous new issues were placed, and despite moderate risk premiums, some of them were significantly oversubscribed. *Pfandbriefe* and other covered bonds also benefited from high investor demand, although here as well, yields dropped to historically low levels. Covered bonds from Germany and the other core eurozone countries are additionally seen as an attractive alternative to government bonds, because of their high degree of safety. New Pfandbriefe were subsequently issued with extremely low risk premiums, which are now even below the mid-swap rates.

Trends in property markets

In view of extremely low yields on investments in government bonds from countries with high credit ratings, investors were also forced to accept historically low yields on top properties. Within Europe, Germany and Scandinavia along with London recorded very low net initial yields, while yields in the southern eurozone countries rose.

The European office property markets were affected by the national debt crisis and weak economy. Although demand was at a positive level in some locations, the trend in space sold was down overall. The weighted European vacancy rate fell below the 10% mark in the course of the year – in part due to minor growth in new space in the wake of modest construction activity. Consequently, the rates in most German locations were considerably lower than the comparative figures for 2011. For this reason, the German markets were among the winners, including in terms of top rents, whereas the average top rent in other European countries was down.

Most of the European hotel markets overcame the economic and financial crisis relatively quickly and soon posted substantial sales increases again. The recovery was primarily driven by higher average room rates. In London and Warsaw, the very strong market trend was favoured by non-recurring effects related to major sporting events.

Demand for logistics space was consistently high, particularly in Europe's core countries, Germany and France, as well as in Poland. However, the volume of new construction was modest as compared with the past five years.

The transaction volume relating to European commercial property was approximately at the previous year's level. With significant growth in some cases, the European core markets and Scandinavia compensated for the decline in the countries of southern and eastern Europe. Around half of the investment volume related to office properties.

At the same time, the transaction volume attributed to retail property diminished. In Germany, the share of such property in relation to the total investment volume was down to 30%, since the supply of top properties could not meet the high demand, including from foreign investors.

The average top yield in Europe was largely at a steady level throughout the year. Significant increases were recorded in respect of yields in southern Europe, while top yields diminished in the major German cities.

In the USA, the transaction volume for commercial property rose sharply in the course of the year, mainly in relation to prime properties in core locations. Office properties were at the centre of this increase, although the economic trend is preventing a faster recovery in the office markets and decelerating growth in rents. In Asia, the economic downturn resulted in subdued demand for office property, while the vacancy rate increased in line with the high volume of completed new buildings.

Investor attitudes and sector developments

The stabilisation of the financial markets had a positive overall impact on sales of mutual fund units – even if this did not apply to all fund categories. The investment statistics published by the *Bundesverband Investment und Asset Management* (BVI) reported funds inflows into bond funds in particular during 2012, but also into mixed and property funds. Investors were less favourably inclined towards equity, guaranteed and money market funds. The net funds inflow totalled €24.6bn in the reporting year (previous year: €– 15.3bn).

Bond funds, which recorded funds inflows amounting to €31.9bn in total, benefited from the stabilisation in the bond markets. Demand was especially high for funds which invest in corporate bonds, emerging market securities and high-interest euro bonds. In the previous year, uncertainty in the euro bond markets had resulted in significant outflows from such funds. Although equity funds reported inflows again following the strong performance in the fourth quarter of the year, they recorded losses of €4.6bn for 2012 as a whole – more than double the figure of the previous year. Other losers in 2012 included capital protected funds and money market funds. In contrast, open-ended mutual property funds remained popular and posted an increase of €2.9bn, approximately a third of which was attributable to DekaBank's retail funds.

At €75.3bn, special funds for institutional investors recorded a sharp rise in net funds inflows as compared with the previous year (€45.5bn).

Regulatory provisions

The implementation of Basel III at the European level will not come into force in early 2013 as was originally planned, but is instead expected to take effect towards mid-year at the earliest. The new regulatory provisions are to be stipulated in the form of an EU regulation, the Capital Requirements Regulation (CRR), and an EU directive, the Capital Requirements Directive (CRD IV). The former will immediately be applicable after coming into force, without implementation into national law. The CRR essentially comprises regulations on the composition of equity and on capital requirements, large-scale loans, the leverage ratio as well as liquidity supply and disclosure. The CRD IV directive includes regulations governing the admission and authorisation of financial institutions and securities companies as well as governance and the supervisory framework.

Recently, the introduction of the liquidity coverage ratio (LCR) was postponed pursuant to a resolution by the Basel Committee on Banking Supervision. Until 2015, banks will now only need to hold 60% of the total required liquidity buffer. An LCR of 100% will then only be mandatory from 2019 onwards. In addition, shares and mortgage bonds may now also be recognised as elements of the liquidity buffer, subject to certain conditions.

In October 2012, the proposals of a group of experts (Liikanen Report) were published regarding possible reforms of the structure of the banking sector in the EU. At the centre of the report is that major banks are to hive off their risky commercial transactions into a separate subsidiary.

Furthermore, the German Federal Financial Supervisory Authority (BaFin) published a first draft of the minimum requirements for recovery plans (MaSan) in November 2012, which oblige systemically important financial institutions (SIFI) to develop restructuring plans for their own businesses.

The European Market Infrastructure Regulation (EMIR) came into force in August 2012 as an EU regulation. It is aimed at increasing the transparency and security of OTC trading in financial derivatives. Under the regulation, these derivatives, which have largely been traded over the counter (OTC) to date, must be processed via central counterparties (CCP) if they are standardised and designated as subject to clearing by the supervisory authority. At the same time, more stringent requirements in terms of collateralisation (margins) apply to OTC derivatives transactions that are not cleared via a CCP.

Business development and profit performance in the DekaBank Group

Overall assessment by the Board of Management

In the reporting year, the DekaBank Group succeeded in increasing its economic result by 35.6% to €519.3m. The steady overall trend in the key income elements – net interest income and net commission income – was positive, as was the sharp rise in net financial income from trading book portfolios, which highlights the importance of our securities business with customers. At year-end, risk provisions for loan losses and securities business were approximately at the previous year's high level.

On behalf of its shareholders, the savings banks, DekaBank generated an added value contribution of €1.3bn, which represents an increase of approximately 12% on the previous year's level. The DekaBank business model has thus once again been confirmed as sound and competitive. Although the high net financial income significantly overcompensated for negative market effects, the Bank cannot be entirely satisfied with developments throughout the Group. This is due to the fact that the increase in net financial income was partly attributable to valuation effects and favourable business conditions in capital market business that are not expected to recur to the same extent in future years. The transformation and expansion of DekaBank into the fully-fledged securities service provider of the savings banks requires a trend reversal in sales and continuing strict management of risk assets. In addition, investments in the adjusted business model will need to be funded by the Bank itself, which will only be possible through rigorous cost management.

In the reporting year, administrative expenses were slightly down on the previous year's level.

Compared with the previous year, the sales trend of securities funds had improved. Nevertheless, it remained unsatisfactory and reflected the current market situation as well as the fact that potential in the securities business within the *Sparkassen-Finanzgruppe* has yet to be fully utilised. DekaBank is confident of achieving a significant improvement in the coming years with the measures planned as part of the transformation process and in partnership with the savings banks. In 2012, the further development of the product range and intensified sales support already had a positive impact.

Although the net sales performance in AMK's and AMI's active asset management was in the negative range at €–0.2bn, there was a considerable increase year-on-year (2011: €–5.9bn). A lower level of funds outflows from bond funds and higher sales of mixed funds, open-ended mutual property funds and special funds and mandates were the decisive factors in this respect. In the second half of 2012, the net sales performance was very positive. ETFs, which are assigned to AMK as at 2013, accounted for net sales of €0.3bn.

The ratio of intra-alliance business, or the share of DekaBank in the total fund sales of the savings banks, rose from 75.4% in the previous year to 76.8%, thereby marking the end of the negative trend recorded in the preceding years.

Totalling €158.3bn, assets under management were up by €7.3bn following the strong fund performance. DekaBank remains one of the three largest asset managers in Germany and managed approximately 4.1m securities accounts at the end of 2012.

In the lending business, DekaBank acted with deliberate caution in line with its focus on business that can be placed externally. The gross loan volume throughout the Group declined by around 2%.

Group risk was reduced to €2.3bn in the reporting year. As a result, the utilisation rate of overall risk-bearing capacity was down by 10.9 percentage points to 45.8%.

The DekaBank Group's core tier 1 capital ratio amounted to 11.6% as at 31 December 2012. Compared with the previous year's figure (9.4%), the reinvestment of 2011 profit and the reduction in RWA impacted favourably. The regulatory capital requirements in accordance with the Solvency Regulation were consistently met, both at the Bank and Group level. The equity ratio rose to 16.2% (year-end 2011: 15.6%).

In the year under review, DekaBank fulfilled the bank recapitalisation survey conducted by the European Banking Authority (EBA) with regard to capital resources. The core tier 1 capital ratio of 11.7% as at 30 June 2012 – after taking into account the write-down of the market values of government securities – clearly exceeded the minimum requirement of 9%, and as a result, there is no recapitalisation requirement. The EBA bank survey, the results of which were published shortly after the end of the third quarter of 2012, was jointly conducted by the EBA, the German Federal Financial Supervisory Authority (BaFin) and Deutsche Bundesbank.

Ratings

In October 2012, Standard & Poor's affirmed DekaBank's ratings as part of its regular review, with a stable outlook. The year-end 2012 ratings were therefore A (long-term) and A-1 (short-term).

At Moody's, the long-term rating for DekaBank was A1 and the financial strength rating C–, both with a stable outlook. The short-term rating of P-1 remained unchanged. At the beginning of January 2013, all DekaBank ratings were reaffirmed.

The ratings for DekaBank remain at a strong level compared with other financial institutions in Germany.

Profit performance in the DekaBank

DekaBank once again achieved a satisfactory result in the past financial year. The total of net interest and net commission income, trading result and other operating income amounted to €1,209m. Net interest income and net income from equity investments decreased by €111m to €450m (previous year: €561m). Compared with the previous year's figure, net interest income declined by 44% to €124m. Net income from equity investments also fell by 4% year-on-year to €326m as a result of lower profit distributions and profit transfers. Net commission income also decreased and at €155m was below the previous year's figure of €192m. With a positive trading result of €295m (previous year: €184m), the item ordinary operating income was €65m lower than in the previous year and totalled €1,209m. Other operating income amounted to €309m (previous year: €337m). Intra-Group services once again accounted for the major share of this item. In the past financial year, operating expenses changed by 2.4%, increasing slightly to €712m. Operating expenses including depreciation fell marginally, decreasing by 1.2% to €389m. In net terms, this produced a result before risk of €497m, which was down €83m on the previous year. The balance of the valuation result from lending business, securities business and equity investments totalled €–15m in the past financial year (previous year: €–281m). The ongoing negative valuation result reflects the slight decline in provisions for loan losses compared with the previous year. The small decrease is due in particular to higher equalisation payments received from hedging transactions. The valuation result was positively affected to a significant decree by reversals of impairments in securities business. After deduction of tax on profits and the allocation to the fund for general banking risks to strengthen core capital, DekaBank achieved an operating profit after tax of €111m (Fig. 3).

Profit performance in the DekaBank *(Fig. 3)*

€m	2012	2011	Change	
Net interest income and net income from equity investments	450	561	–111	–19.9 %
Net commission income	155	192	–37	–19.0 %
Trading result	295	184	111	60.4 %
General administrative expenses	661	631	30	4.8 %
Risk provision/valuation	–15	–281	266	94.7 %
Income tax	143	45	98	218.1 %
Net income after tax	**111**	**125**	–14	–11.3 %

Business development in the AMK business division

The continuing low level of interest that private investors displayed for fund investments once again shaped the business trend in AMK during 2012. Net sales of mutual securities fund units fell short of expectations, despite the stronger performance of equity and bond funds in both absolute terms and compared with the competition.

Net sales performance and assets under management

The net sales performance in direct sales of mutual securities fund units and fund-based asset management was up €3.1bn on the previous year (€–6.8bn) to €–3.7bn (Fig. 4). Redemptions of fund units dominated the situation, particularly in the first half of the year, due to the unsatisfactory yield and price trend in the capital markets. In the second half of the year, AMK achieved a positive net sales performance overall, with the balance moving into the positive range in the fourth quarter of 2012.

AMK sales performance *(Fig. 4)*

€m	2012	2011
Direct sales mutual funds	–1,912	–5,326
Fund-based asset management	–1,770	–1,498
Mutual funds and fund-based asset management	**–3,682**	**–6,824**
Special funds and mandates	1,867	–2
Net sales AMK	**–1,815**	**–6,826**
For information purposes:		
Net funds inflow AMK (according to BVI)	**–2,826**	**–7,759**

Direct sales of mutual securities funds stabilised substantially as compared with the previous year. Decisive factors here were the reduction in funds outflows from bond funds and pleasing demand for mixed funds, whose net sales more than doubled compared with 2011. Demand from investors was particularly high for multi asset funds, such as the Deka-EurolandBalance. Conversely, net funds outflows from equity funds and capital protected funds were higher than in the previous year.

In fund-based asset management, net sales of €–1.8bn remained below the previous year's level (€–1.5bn). Steady net funds inflows into the Deka-Vermögenskonzept (Deka Wealth Concept), which exceeded the volume of €1bn in the reporting year, and a strong start for the Deka-BasisAnlage (Deka Basic Investment) fund of funds concept failed to fully offset the funds outflows from the Sparkassen-DynamikDepot.

Sales of institutional products totalling €1.9bn were significantly up on the almost balanced net sales performance in the previous year. The main reason was the considerably higher level of net sales of special funds. With regard to advisory/management mandates, net sales were approximately balanced and therefore slightly weaker than in the previous year, while master funds recorded funds outflows.

Assets under management in the AMK business division rose by 4.9% to €133.1bn (year-end 2011: €126.9bn), despite the difficult sales situation (Fig. 5). The positive performance was partly market-driven. However, the higher product quality of the funds contributed equally to this growth.

Assets under Management AMK *(Fig. 5)*

€m	31.12.2012	31.12.2011	Change	
Equity funds	18,018	17,420	598	3.4%
Capital protected funds	3,243	4,769	–1,526	–32.0%
Bond funds	33,583	34,570	–987	–2.9%
Money market funds	225	244	–19	–7.8%
Mixed funds	11,666	10,033	1,633	16.3%
Other mutual funds	4,483	3,788	695	18.3%
Owned mutual funds	**71,218**	**70,824**	394	0.6%
Partner funds, third party funds/liquidity in fund-based asset management	6,746	5,886	860	14.6%
Partner funds from direct sales	2,121	1,882	239	12.7%
Mutual funds and fund-based asset management	**80,085**	**78,592**	1,493	1.9%
Special securities funds	37,132	31,991	5,141	16.1%
Advisory/management mandates	8,566	7,670	896	11.7%
Advisory from master funds	7,318	8,642	–1,324	–15.3%
Special funds and mandates	**53,016**	**48,303**	4,713	9.8%
Assets under management AMK	**133,101**	**126,895**	6,206	4.9%
For information purposes:				
Fund assets – mutual funds AMK (according to BVI)	**90,476**	**89,634**	842	0.9%
Fund assets – special funds AMK (according to BVI)	**54,576**	**49,272**	5,304	10.8%

In mutual funds and fund-based asset management, the volume of assets managed increased by €1.5bn in the course of the year to €80.1bn. The share of equity funds in the total volume exceeded 22%, as was also the case in the previous year. The weighting of mixed funds rose by almost two percentage points to approximately 15% in the year under review. In contrast, at 42%, the share of bond funds (including near-money market bond funds) was slightly down (previous year: 44%). Special funds and mandates recorded a sharp increase in assets under management, which totalled €53.0bn (year-end 2011: €48.3bn).

Fund performance

The high quality of AMK's fund management was reflected by a stronger performance in the reporting year. As at year-end 2012, around 51.2% of equity funds and 94.9% of bond funds outperformed their respective benchmarks. The share of above-average fund ratings (Morningstar) amounted to 19.1% for equity funds and 42.6% for bond funds.

The funds in the Deka-BasisAnlage series played to their strengths in all market phases. In difficult market phases, the funds benefited from the firmly integrated risk management model. During the upward movements in the second half of the year, active management played a greater role via the share of investments which offer promising opportunities. Investments in the Deka-Vermögenskonzept (Deka Wealth Concept) on the part of the savings bank customers also achieved an attractive performance in all risk categories.

In the Scope Investment Awards 2012, Deka Investment GmbH received the top award in the category of Asset Manager Bond Funds. The reason Scope stated for voting Deka Investment GmbH as the best bond fund house was the asset manager's "high level of expertise and many years of experience in the segment of fixed-income investments", which according to Scope is reflected "in the comprehensive range of high-quality products".

Business development in the AMI business division

Once again in 2012, AMI was one of the successful providers in a sector environment that has seen further consolidation due to the problems of several market players. The DekaBank Group benefited disproportionately from the strong demand for property investment, extending its position as the market leader in Germany. The comfortable level of liquidity in the funds and their positive performance, which stem in part from consistently leveraging buying and selling opportunities, were key factors in sales and marketing. Net sales also outstripped the previous year's figure in institutional business. In commercial property finance, the external placement ratio increased significantly, while new business volumes largely remained stable.

Net sales performance and assets under management

With net sales of €1.6bn, AMI surpassed the previous year's figure (€1.0bn) by 64.1% (Fig. 6). As a result of the positive sales and performance, assets under management in the business division increased by 4.7% to €25.2bn (previous year: €24.1bn).

AMI sales performance *(Fig. 6)*

€m	2012	2011
Mutual property funds	1,313	732
Property funds of funds	–11	–6
Special funds (including credit funds)	215	200
Individual property funds	67	39
Net sales AMI	**1,584**	**965**
of which to institutional investors	447	369
For information purposes:		
Net funds inflow AMI (according to BVI)	**1,289**	**914**

In open-ended mutual property funds, the management of sales via limited sales quotas and the buying and selling policy aligned with them proved their worth once again. The sales quotas agreed on with the sales partners were almost fully utilised. Net sales in mutual property funds totalled €1.3bn (previous year: €0.7bn), of which €1.1bn was attributable to retail funds (previous year: €0.6bn). Around one-third of this figure relates to the reinvestment of distributions, which affirms the enduring confidence that investors have in the stability of the open-ended property funds offered by Deka Immobilien Investment and WestInvest. The bulk of net sales was attributable to Deka-ImmobilienEuropa, which, with its high share of prime properties in Germany, met with brisk demand on the part of private investors.

Despite moderately higher distributions, assets under management in the open-ended mutual property funds increased by 4.1% to €21.4bn (previous year: €20.5bn) (Fig. 7). In terms of fund assets according to the BVI, AMI's market share improved to 26.0%, thereby strengthening its leading position.

Assets under management AMI *(Fig. 7)*

€m	31.12.2012	31.12.2011	Change	
Mutual property funds	21,361	20,529	832	4.1%
Property funds of funds	76	89	–13	–14.6%
Special funds (including credit funds)	2,985	2,646	339	12.8%
Individual property funds	816	836	–20	–2.4%
Assets under management AMI	**25,238**	**24,100**	1,138	4.7%
For information purposes:				
Fund assets AMI (according to BVI)	**23,788**	**22,666**	1,122	5.0%

At €447m, AMI's net sales in institutional business were up on the previous year (€369m). The open-ended property fund WestInvest ImmoValue, which is available for the savings banks' own investments, and the single-sector funds of the TargetSelect series accounted for €351m of this figure (previous year: €205m). The special and individual funds, which operate with smaller funds volumes, attracted net fund inflows of €96m (previous year: €164m). There was buoyant demand from savings banks, insurance companies and public sector pension associations for the distribution and tax-optimised products in the Domus series, which will not be reflected in an increase in net inflows in the newly launched "Domus-Deutschland" fund until the years to come.

With assets under management in the amount of €5.1bn (previous year: €4.5bn), AMI remains well on the way to expanding its market position in institutional business and servicing a growing share of the high demand by institutional investors.

Fund performance

AMI's open-ended mutual property funds achieved an average volume-weighted yield of 2.4%, which was on a par with both the market average and the previous year. Despite the decrease in liquidity investment owing to market interest rates, the level matched that of 2011 and the liquidity ratio varied only marginally from the previous year's figure. Compared with the risk profile and return offered by other investment products, AMI's retail funds represent an attractive investment.

The active buying and selling policy of the AMI division made a significant contribution to the performance of the funds. At €3.7bn, the transaction volume was substantially higher than in the previous year (€1.3bn). Of this amount, €2.3bn, or 62.2%, related to the acquisition of property. Deka Immobilien secured contracts for the purchase of 21 properties in the reporting year, once again making it one of the biggest European property investors. Moreover, as part of its anti-cyclical management strategy, AMI ensured significant sales proceeds for the funds from targeted disposals. Properties sold by Deka Immobilien included an office building in Vancouver which had increased considerably in value since its acquisition during the financial market crisis in 2009.

The letting ratio was able to build on the previous year's high volume. The vacancy rate is up slightly on the level of the previous year.

As a result of both transactions and modernisation measures, the share of property holdings certified as sustainable increased from 16% in 2011 to 24% in 2012. This underscores the importance of sustainability aspects for the long-term performance of the portfolio.

Real Estate Lending

Real Estate Lending (REL) continued to concentrate on risk-aware lending with a consistent focus on capital market viability. In addition, loans were granted to the Bank's own or third party property funds which are governed by the German Investment Act.

The volume of new business arranged in 2012 totalled €3.1bn and was therefore just slightly below the previous year's figure (€3.4bn). The total volume included extensions in the amount of €0.6bn (previous year: €0.3bn).

At €1.8bn, the volume of loans placed with third parties again exceeded the high level of the previous year (€1.5bn). Over half of these loans were successfully granted to the *Sparkassen-Finanzgruppe*.

The gross loan volume amounted to €7.7bn by year-end 2012 (end 2011: €7.4bn). Commercial property financing accounted for a share of €5.7bn and property fund financing for €1.6bn. The volume of financing for public sector construction projects, a segment which is being phased out, amounted to €0.4bn.

At year-end, the average rating in the portfolio according to the DSGV master scale stood at 7 (corresponds to BB in the S&P rating scale), including the portion secured by collateral with a rating of 4 (BBB–).

Business development in the C&M business division

The C&M division can look back on a successful 2012 overall. The Markets sub-division significantly increased its market share and earnings in customer business compared with the previous year. Among other factors, C&M benefited here from the upturn in demand on the part of savings banks for bonds as well as share-based and structured products. The tightening of credit spreads over the year also had a positive impact on the business volume.

Business development in the C&M business division

Markets

In the first half of the year, the STP unit especially benefited from the sharp rise in repo/lending activities in a volatile market environment. However, given the oversupply in the market owing to unlimited ECB allotments, customer demand for liquidity declined again over the course of the year. In this challenging market environment, STP succeeded in further strengthening its customer business via the trading platform. In conjunction with the expansion of the derivatives platform, a large number of contacts with savings banks resulted in an increase in business, including in anticipation of future regulatory requirements. The broad-based market recovery and tightening of bond spreads that started mid-year also led to an upturn in customer activity.

The higher contribution to earnings by the S&T unit was due to strong demand on the part of institutional customers for *Pfandbriefe*, foreign covered bonds and corporate and country bonds, as well as to growth in product structuring. The intensified cooperation and conservative risk management of the trading units had a positive impact on customer business.

Overall, development in commission business was virtually stable. As a result of the decline in volatility, trading in listed derivatives was slightly below expectations. The downturn in ETF-related business was largely compensated by increased volumes in equities trading. Although the ETF market recorded inflows, from which EFTlab's equity and bond-related products also benefited, sales of trading-oriented products to customers were lower than the forecast figures due to the decrease in volatility. Preparations to integrate ETFlab in the AMK business division as at the start of 2013 were completed.

Credits

Refinancing for the savings banks was once again a central element of the business activities in the Credits sub-division in 2012. The gross loan volume decreased as planned to €23.3bn at the end of 2012 (end of 2011: €26.8bn); of this figure, refinancing for savings banks accounted for €11.3bn, or around 48%. In addition, Credits restricted itself to transactions for which placement is already ensured for significant portions when the deal is closed. Consequently, the sub-division is active in infrastructure financing and is supporting the "energy reform" in Germany. Some of the infrastructure credit assets were externally placed in the Deka Infrastrukturkredit credit fund. The current restrained outlook for the global trading volume necessitated extensive additions to provisions for loan losses, especially with regard to shipping finance, which put a strain on earnings. Activities in aircraft finance and ECA-covered export financing were in line with the forecast.

Treasury

In an environment of historically low market interest rates and extensive market liquidity, Treasury successfully rose to the challenge of ensuring adequate liquidity at all times with an appropriate return and high portfolio rating, and made a stronger contribution to earnings than in the previous year. The rise in the gross loan volume from €20.0bn (end of 2011) to the present level of €22.4bn reflects the establishment of an additional strategic liquidity reserve, which was also prompted by regulatory requirements.

Business development in non-core business

In non-core business, DekaBank continued to pursue its strategy of reducing the portfolio whilst safeguarding assets. The gross loan volume of lending business and credit substitute transactions, which do not represent core business, decreased to €4.3bn as at the 2012 reporting date (end of 2011: €5.2bn). This development also helped to limit risk assets at the Group level.

With regard to capital market credit products, the decline in volume was especially steep. In addition to the final maturity of several products, this was due to the sale of securitisation positions and southern European government bonds. At year-end 2012, the volume stood at €1.3bn (end of 2011: €1.7bn). At the end of the year, the volume of the loan portfolio still stood at €2.4bn (end of 2011: €2.7bn), while the portfolio attributable to the former Public Finance sub-division decreased to €0.6bn (end 2011: €0.8bn).

Financial position and assets and liabilities

Balance sheet changes

The business volume at DekaBank decreased in 2012 by €2.5bn, or 1.8%, to €137.8bn (previous year: €140.3bn). Total assets fell by €2.0bn, or 1.5%, from €132.8bn to €130.8bn. Amounts due from customers declined by €1.0bn to €18.1bn and thus represented around 13.8% of total assets. Amounts due from banks fell by €6.6bn to €24.4bn (previous year: €31.0bn). This corresponded to a share of 18.7% of total assets (previous year: 23.3%). The item trading portfolio decreased slightly by €0.7bn to €65.0bn, corresponding to 49.7% of total assets.

Amounts due to customers dropped to €18.3bn (previous year: €20.1bn). Amounts due to banks declined by €0.5bn to €20.3bn (previous year: €20.8bn). Securitised liabilities increased by €1.8bn to €34.8bn. The item trading portfolio totalled €52.1bn. As at the reporting date, on-balance sheet equity amounted to €1.1bn (previous year: €1.1bn) and accounted for 0.9% of the balance sheet total (previous year: 0.9%) (Fig. 8).

Balance sheet changes in the DekaBank *(Fig. 8)*

€m	31.12.2012	31.12.2011	Change	
Balance sheet total	**130,811**	**132,823**	−2,012	−1.5 %
Selected items on the assets side:				
Due from banks and customers	42,514	50,174	−7,660	−15.3 %
Bonds and other fixed interest securities	15,175	11,732	3,443	29.3 %
Trading portfolio	65,010	65,683	−673	−1.0 %
Selected items on the liabilities side:				
Due to banks and customers	38,609	40,886	−2,277	−5.6 %
Securitised liabilities	34,785	32,950	1,835	5.6 %
Trading portfolio	52,091	53,417	−1,326	−2.5 %

Change in regulatory capital

DekaBank's capital and reserves in accordance with the German Banking Act (KWG) amounted to approximately €3.3bn as at 31 December 2012, down €0.1bn on the previous year. Core capital of €2.8bn accounts for the largest share of capital and reserves. Core capital also includes silent capital contributions (€0.6bn).

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

The capital and reserves principle under banking supervisory law was complied with at all times throughout 2012, both at the Bank and at the Group level (Fig. 9). DekaBank's liquidity ratio stood at between 1.2 and 1.6 in the reporting year and exceeded the minimum requirement of 1.0 at all times.

Breakdown of equity DekaBank *(Fig. 9)*

€m	31.12.2012	31.12.2011	Change
Core capital	2,799	2,664	5.1 %
Supplementary capital	550	768	−28.4 %
Tier III capital	–	–	n.a.
Capital and reserves	**3,349**	**3,432**	−2.4 %
Default risks	15,088	16,113	−6.4 %
Market risk positions	6,100	6,221	−1.9 %
Operational risks	1,122	1,170	−4.1 %
%			Change %-Points
Core capital ratio (incl. market risk positions)	12.5	11.3	1.2
Equity ratio	15.0	14.6	0.4

Liquidity and refinancing

Since the reporting year, DekaBank, as a capital market-oriented bank, has had to comply with the requirements for liquidity management under the MaRisk (Minimum Requirements for Risk Management), which was amended at the end of 2010. These requirements stipulate that banks must have sufficient funds and highly liquid assets that are eligible as security for central bank borrowing, enabling them to bridge a short-term refinancing requirement in a stress scenario for a minimum of one week. For a period of at least one month, further components of the liquidity reserve may be used, provided that they can be turned into cash without significant loss in value and regulatory requirements are complied with. We have more than fulfilled both requirements.

The new MaRisk stipulations have been introduced in the context of the future liquidity and refinancing requirements under Basel III. We have been monitoring the corresponding ratios since financial year 2010. The liquidity coverage ratio (LCR) is aimed at ensuring that the highly liquid liquidity reserve corresponds, as a minimum, to the net outflow of cash in a stress period lasting 30 days. The ratio is to be introduced in stages over the period 2015 to 2019. The time horizon for the net stable funding ratio (NSFR) is one year and is intended to lead to a balanced maturity structure for assets and liabilities. This ratio is scheduled to be introduced as a minimum parameter in 2018.

DekaBank's liquidity ratio in accordance with the Liquidity Directive that is still mandatory in Germany stood at between 1.2 and 1.6 in the reporting year and exceeded the minimum requirement of 1.0 at all times.

Employees

Changes in the staff complement

The number of employees increased slightly in the financial year to 4,040 (end of 2011: 3,957). In terms of full-time equivalents, the number of employees rose by 1.9% to 3,506 (end of 2011: 3,441).

At 3,520, the number of positions filled was up 3.0% on the previous year. The increase was partly due to the recruitment of new staff in the AMI business division required to meet tighter regulatory requirements regarding property valuation and management. Furthermore, the intensification of sales support necessitated an increase in the number of local sales directors in Savings Banks Sales. The staff complement was also higher than in the previous year in the Group COO Corporate Centre, as well as in IT and Organisation.

On average for the year, 84.0% (previous year: 84.4%) of the staff employed were in full-time posts. The average employee age was 44.8 years (previous year: 44.1 years).

Key areas of action in the reporting year

Further development of remuneration system

The revised remuneration system, which was implemented in the previous year in line with the requirements of the Remuneration Ordinance for Institutions, has proven its worth. The flexible system facilitates success and performance-based remuneration in line with market conditions. Performance assessments are now linked more closely with the targeted development plans. In the current year, the employee performance reviews were supplemented by an assessment of staff potential, which in conjunction with the performance assessment should result in even more individually tailored development plans.

In addition, DekaBank is also working to further develop its remuneration system in line with regulatory requirements, particularly with regard to the Bank's risk-relevant employees.

Leadership initiative

At the start of 2012, DekaBank adopted eight management principles (Common Understanding of Leadership and Management), which were established throughout the Group in the reporting year. The overriding objectives of the management initiative are to specify understandable and practical definitions of goals and responsibilities that are accepted by the employees, design efficient decision-making structures and processes, and to create a cooperative climate based on trust. Using three formats aimed at management teams, individual managers as well as team leaders and employees, staff at different levels have addressed the issue of the management principles. By the year-end, more than one in two managers and one in five employees had participated in a workshop or individual meeting and developed measures. Preparations are underway for comprehensive feedback processes and further measures in 2013.

Promoting young talent and personnel marketing

Through its personnel marketing campaign, which was revised in the previous year, DekaBank positions itself as an attractive employer and uses its web-based career portal, among other channels, to raise its profile among candidates at different hierarchical levels.

Along with investment fund sales staff and commercial staff for office communications, DekaBank trains students enrolled in the Applied Information Technology (BSc) dual study course in cooperation with the Baden-Württemberg Cooperative State University. In 2012, 13 trainees successfully completed their training in the DekaBank Group. Two students also graduated from the dual study course. In addition, DekaBank offers employees the opportunity to study for bachelor degrees alongside their job and supports employees who are studying to earn a degree in investment management (*Investmentfachwirt/Investmentfachwirtin*) at the Frankfurt School of Finance & Management.

Comprehensive HR programmes

The proven concept of a life stage-based HR policy, which covers all phases from career choice to retirement from professional life, once again served as a guideline for many measures relating to health management, equal opportunities and family-friendly policy in 2012. The concept is explained in detail in the annual sustainability report.

Work-life balance

The options to promote work-life balance were also further developed in the reporting year.

For the third time, DekaBank received the "berufundfamilie" quality seal, awarded under the auspices of the German Federal Minister of Family Affairs and the German Federal Minister of Economics, for the options the Bank offers to promote a better work-life balance. The certification was preceded by a comprehensive re-audit conducted in the previous year; this comprised a detailed evaluation of the framework conditions and their establishment as part of the Bank's corporate culture, with new targets agreed on the basis of this evaluation.

Health management

DekaBank has implemented an up-to-date health management system which is firmly integrated in the processes of the Bank. The central pillars are movement, nutrition, medicine / prevention and mental health. In 2012, DekaBank was once again awarded the *Exzellenz* seal in the Corporate Health Awards. To raise awareness of the issue of mental health, workshops have been offered for managers and employees since 2012.

Diversity

In line with its code of ethics, DekaBank is committed to equal career opportunities for men and women and continually enhances the general conditions which enable employees to further improve their work-life balance.

A particular focus here is to increase the proportion of women in management positions. The new equal opportunities plan adopted in financial year 2012 is aimed at ensuring that one in five management positions and one in four non-pay-scale (non-tariff) positions will be held by a woman in future. The top management was involved in defining the specific targets and measures for the respective areas of responsibility and is in charge of the implementation. At the end of 2012, the proportion of women in management positions was 15.9% (end of 2011: 15.5%).

Post balance sheet events

In January 2013, the Administrative Board of DekaBank appointed Martin K. Müller, currently a member of the Management Board of Landesbank Berlin, as an additional member of DekaBank's Management Board with probable effect from 1 April 2013. Martin Müller will assume the newly created combined Management Board role for all financial and operating functions (CFO / COO) and for the Treasury at the fully-fledged securities service provider of the savings banks. The appointment was made in connection with the planned consolidation of the customer-oriented capital market business and Asset Management under the umbrella of DekaBank.

Martin Müller will take over responsibility for Treasury and Finance from Dr. Matthias Danne, who has been in charge of these areas in addition to his duties as the Management Board member with responsibility for the Asset Management Property and Lending business division. As COO, the new Management Board member will also be taking over responsibility for operations from Dr. h. c. Friedrich Oelrich, who in turn will be focusing on risk control and risk monitoring tasks in the future in his capacity as Chief Risk Officer (CRO).

With this reassignment of responsibilities, DekaBank is already implementing at an early stage the more stringent requirements specified by the BaFin with respect to anchoring risk control at the organisational level. As at 2014, the new requirements will be mandatory for all major financial institutions. Michael Rüdiger, CEO, Oliver Behrens, Deputy Chairman, and Dr. Georg Stocker, Sales and Marketing Director, will continue to sit on the Management Board of DekaBank.

No other major developments of particular significance occurred after the 2012 balance sheet date.

Forecast report

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

Forward-looking statements

We plan our future business development on the basis of assumptions that seem the most probable from today's standpoint. Despite this, however, our plans and statements about growth during the next two years are fraught with uncertainties, more so than ever in the current market environment.

The actual trends in the international capital, money and property markets, and in the DekaBank business divisions, may diverge markedly from our assumptions, which are partly based on expert estimates. For the purpose of providing a balanced presentation of the major opportunities and risks, these are broken down according to business division. In addition, the risk report included in the Group management report (see page 31 et seq.) contains a summarised presentation of the DekaBank Group's risk position.

Anticipated external conditions

Expected macroeconomic trends

Economic conditions will continue to be subject to a high level of uncertainty in 2013 and beyond. Despite the stabilisation of the financial system following the announcement of the ECB's bond programme, structural problems in the eurozone have yet to be resolved and there is no certainty about whether the adjustment processes in southern Europe will be successful. Additional risks arise from the fiscal dispute in the USA, which was merely postponed in January 2013. If a long-term solution is not found, there is a risk that the already modest economic growth will slow down as a result of tax increases and spending cuts.

At the same time, there are growing signs of a slight improvement, regardless of the high debt burden of countries, banks and private households. According to DekaBank's expectations, global economic growth will pick up somewhat in 2013. The emerging markets, led by China and India, are the growth drivers. Conversely, the weak growth trend of 2012 is likely to continue in the industrialised countries, although the recession in the eurozone will ease. For Germany, DekaBank expects growth at approximately the previous year's level. DekaBank's economists anticipate a revival of investment activities starting in mid-2013 as well as increasing momentum generated by private consumption. In addition, government spending is set to rise at a slightly higher rate – as has been the case in almost every *Bundestag* election year in Germany.

In 2014, global economic growth may become more dynamic. Provided that the adjustment of balance sheets in the eurozone is a success, initial impetus for growth can be expected here as well starting in 2014, especially in view of the fact that the strategy of dealing with the crisis is now focusing more on growth than before.

Expected trends in the capital markets

Even if the factors which are generating uncertainty remain evident, DekaBank assumes that the financial and capital market environment will continue to stabilise. The ECB is expected to pursue its expansionary monetary policy and maintain the key interest rate at the current level. The correspondingly low money market interest rates and bond yields at the short end increase the extent of the real interest rate trap for savers, as the rate of inflation is anticipated to be higher given the sharp rise in the central bank money supply.

The improved financial market environment makes it likely that yields on German government bonds with long maturities, which were sought after in 2012 as a safe haven, will gradually increase again. However, DekaBank anticipates an overall muted growth trend for bond market yields – partly due to the low risk premiums on corporate bonds and *Pfandbriefe* as well as government bonds from the peripheral countries, which continue on a downward trend.

Uncertainty among investors remains considerable against the backdrop of price fluctuations for securities. Nevertheless, the equity markets may benefit from the fact that growth drivers are set to prevail more strongly starting in the second half of 2013. Furthermore, securities for the asset formation of private households are likely to play a more important role again, since they have become more attractive in the low interest rate environment as compared with other investment options. The DAX could reach the 8,000 point mark as early as mid-2013 and subsequently remain at that level until the end of the year.

Expected trends in the property markets

The office markets in Europe are having a delayed response to the economic downturn. Total income in 2013 will probably increase only slightly, although the safe havens such as Germany, Scandinavia and London are set to remain in demand. In Germany, a growth in rents is even likely. Accordingly, there are limits with regard to potential growth in top yields in these regions – unlike the situation in Spain and Portugal, for example. From 2014 onwards, prospects should slowly start to brighten again in the European rental markets. However, DekaBank does not expect a trend reversal before 2015 at the earliest. In addition to an economic recovery, such a trend reversal will also be contingent on improved financing conditions. Outside of Europe, the chances of achieving above-average yields have also diminished, given that purchase prices are already high.

At an European level, the most expensive shopping centres are located in Germany, France and Sweden. Consequently, yield opportunities are also limited here. Germany's major cities have already reached a high degree of saturation, so that project developments are currently focusing on medium-sized cities with a large catchment area. Growth in rents is expected to slightly accelerate again starting in 2013.

With regard to the European hotel markets, we expect a largely steady trend following the recovery of 2012. Demand for logistics space is likely to remain high in the European core countries. In view of the comparatively low volume of new construction, vacancy rates are hardly expected to rise. Locations where the supply is limited will probably record growth in rents.

Expected business development and profit performance

Overall, DekaBank does not anticipate a far-reaching improvement in the general conditions for its asset management and capital market activities. As private investors continue to adopt a safety-oriented approach and are barely registering the slow but steady erosion of assets resulting from the real interest trap, no substantial impetus from the demand side is expected for the investment fund business. Marked by a surplus supply of liquidity as well as low market interest rates and bond yields, the capital market environment has an additional dampening effect on income planning in capital market business.

According to the current planning status, the DekaBank Group's income will not therefore quite match the 2012 figure. In particular, net interest income is expected to be down on the figure for the reporting year in light of the ongoing low interest rate level and the restriction on risk-weighted assets. With regard to net commission income, DekaBank forecasts an almost steady trend, which is partly due to the higher level of assets under management recorded in 2012. The risk provisions and a modest reduction in administrative expenses are set to have a positive impact on the earnings position. DekaBank intends to decrease administrative expenses through strict cost discipline and lower project expenses for the IT mission. The additional expenses in connection with the D18 transformation programme result from an intensification of sales-related activities, including the creation of additional jobs for on-site support in the savings banks and development of the retail certificate business. The first key results from the campaigns launched as part of the transformation programme are expected as early as 2013.

Our overall aim for 2013 is to achieve an economic result that is almost at the previous year's strong level. The extent to which this will be possible in view of the economic conditions and capital market situation remains to be seen. Our goal is to generate modest growth from 2013 onwards.

AMK business division

AMK will consistently implement its divisional business strategy (see page 7) and thus continue to make a significant contribution to the economic result. Key measures relate to the optimisation and further development of the range of products and services, focused and intensified sales support as well as the expansion of institutional business.

Net sales are set to be positive – this also applies without the inclusion of the ETF activities included since early 2013 – and therefore significantly exceed the previous year's figure. ETF business, which is included in AMK for the first time, will be cautiously expanded.

An economic result slightly below the 2012 figure has been budgeted. This is partly attributed to higher expenses in connection with sales support. Starting in 2014, the economic result is expected to increase again.

Risks arise, in particular, from a possible shortfall in terms of the assumptions regarding the capital market environment. A renewed worsening of the debt crisis in the eurozone may result in capital market distortions and subsequent funds outflows. Increasingly complex regulatory requirements may also have a negative impact on business development and profit performance. Opportunities are set to emerge, particularly from the savings banks switching to the new association-wide advisory process as well as higher than forecast demand from investors for securities investments against the backdrop of the real interest rate trap.

AMI business division

AMI will once again pursue its proven management of property funds in 2013. The funds sales coordinated with the savings banks as well as the buying and selling policy are closely aligned with the liquidity situation of funds and market conditions. Net sales of property fund units are expected to approximately match the high level achieved in 2012. Sales of open-ended mutual property funds will be flanked by an expansion of institutional business, which will also be based on new funds of funds and increased credit fund sales. AMI is planning a predominantly stable development of the economic result over the next years.

Real Estate Lending aims to stabilise the Bank's positioning in the most important global property markets. The goal here is an only moderate expansion of the volume through a continuing proactive approach in terms of external placement activities.

Risks with regard to future developments arise, for example, from the current low interest rate environment. It means that interest paid on the liquidity of funds is at a low level, which will affect fund performance across the sector for the foreseeable future, making property funds less attractive as compared with other investment options. Uncertainty about the trend in value and rents may prove to have an additional adverse effect, along with further regulatory intervention – such as the introduction of the capital investment code – and a general deterioration in capital market and property market conditions. Opportunities mainly arise from the high level of demand from investors for investments offering stable value, which property funds can particularly benefit from.

C&M business division

Markets will continue to focus consistently on customer-driven business. STP is actively contributing to shaping the trend towards central counterparties and standardised trading transactions. In commission business, DekaBank expects a steady development. With additional services based on the expanded trading platform and the role as general clearer for exchange traded derivatives, commission business delivers important elements of the future fully-fledged securities service provider. S&T will further expand business with the savings banks while also transferring its expertise in the issuance of certificates to the business with retail customers.

Credits will continue to focus on the narrowly defined credit segments and will only make selective new commitments. A very limited amount of capital is committed. The Bank's role as funding partner and co-investor of the savings banks will already be further strengthened in 2013. In the prevailing low interest rate market environment, Credits anticipates growing demand for loan participation and credit funds. Treasury will continue to centre on bank and liquidity management in the future.

The interest rate and liquidity situation in the market as well as lower spreads in the bond market make it rather unlikely that the high result achieved in 2012 will be repeated. In Credits, income growth is restricted by the limited amount of capital committed while Treasury focuses on the ability to readily convert investments into cash in the short-term rather than on maximising income. Overall, the business division forecasts a continuing upward trend in the economic result.

Risks in terms of future developments are associated with the potential deterioration of the market situation on the one hand, for example as a result of a worsening of the national debt crisis. This could have a negative impact on the valuation results related to banking book portfolios. On the other hand, risks arise from the adjustment of regulatory conditions. In this connection, the currently discussed financial transaction tax should be mentioned alongside with Basel III and CRD IV. Furthermore, the development of risk provisions could once again exceed the forecast figures and negatively affect the result.

Non-core business

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

Risk report

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

Risk policy and strategy

As a fully-fledged securities service provider of the savings banks, DekaBank aims to create sustainable added value. In light of this, the Bank's stable and competitive business model is being further developed on a continuous basis. At the same time, DekaBank remains focused on transactions with strictly limited risks.

In the scope of the long-term business strategy defined by the Board of Management as well as the risk strategies consistent with it, risk positions continued to be principally only entered into if they arise in connection with customer transactions and can be hedged in the market. In addition, risks are accepted if they are conducive to liquidity management or are required in order to leverage synergies in Asset Management. Based on this, DekaBank implements an appropriate risk/reward ratio in the long term, with the aim of achieving a sustained increase in corporate value.

The Bank uses a systematic strategic process to regularly review its Group-wide business strategy, management and structure, as well as the divisional and sales strategies in accordance with the Minimum Requirements for Risk Management (MaRisk), and to ensure that they are consistent, complete, sustainable and up-to-date. The process covers planning, implementation, evaluation as well as any adjustments to the strategies. Use of an appropriate design for the Group management and structure guarantees the translation of the business strategy into the business divisions.

The risk strategies defined for all material types of risk are derived from the corporate strategy for the Group and the strategies for the business divisions, and provide specific details regarding risk monitoring and management. They are also reviewed at least once a year, revised if necessary and discussed with the Administrative Board. In the course of this process, DekaBank takes into account both external as well as internal factors, the underlying assumptions of which are reviewed regularly and as necessary. In addition, the Administrative Board has established an Audit Committee, which periodically obtains a comprehensive overview of the risk management systems in the DekaBank Group and receives reports on the audit findings from Internal Audit. The Credit Committee, also established by the Administrative Board, acts as a committee for loan and credit approvals and, together with the Board of Management, provides advice on the business policy direction in the Group's lending business.

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

Organisation of risk management and control

Risk management

DekaBank perceives risk management as the active management of its risk positions (Fig. 10). The full Board of Management of the DekaBank Group plays a central role here: the Board is responsible for establishing, further developing and monitoring the efficiency of the risk management system. The full Board of Management approves the permissible overall risk at the Group level and stipulates what proportion of the allocated risk capital should be attributed to the respective risk types on the one hand and the business divisions on the other (top down view). In addition, the business divisions determine their budgeted capital requirement (bottom up view). Combining the two approaches ensures the most efficient allocation of the risk capital to the business divisions on an annual basis.

In due consideration of risk concentrations, DekaBank has specified limits (risk tolerances) for all material risks and has implemented consistent risk management. As part of a risk inventory, we review, on an annual basis and, if necessary, as required, which risks could have a significant negative impact on assets, including capital resources, earnings situation or liquidity. In this regard, all material risks and risk concentrations are taken into account. By having an efficiently structured and comprehensively documented risk inventory, the Bank ensures that an overview of the overall risk profile of the DekaBank Group is available at all times.

In the reporting year, DekaBank also created the Asset Liability Committee (ALCO), a new central committee which replaces and expands the function of the former Asset Liability Management Committee (ALMC). In addition to the overall control of market and liquidity risks, a function previously assumed by the ALMC, ALCO also supports the full Board of Management, particularly with respect to questions concerning capital allocation and balance sheet structure management. In addition to the department heads responsible for Treasury, Group Risk and Finance, the committee includes the heads of the Treasury and Markets sub-divisions as well as Corporate Centre Group Risk and Finance. The head of Macro Research also participates in the meetings as a permanent non-voting guest. The business divisions are then solely responsible for implementing the strategic guidelines.

The full Board of Management is also supported by the Stress Testing Committee as part of the overall assessment of the risk situation. The Stress Testing Committee is particularly responsible for the assessment and appraisal of the stress test results and is also fundamentally responsible for determining stress testing scenarios and processes. Regular members of the committee are the heads of Corporate Centre Group Risk, Finance and Strategy & Communication as well as the heads of the COO M&T, COO AMK, COO AMI, Risk Control and Macro Research units.

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

To pool responsibilities for assessing country risks, it was also decided to establish a separate Country Risk Committee in which, amongst other things, the responsibility for an overall country risk system, the determination, authorisation and approval of country-specific limits and the quarterly review of any required country-specific valuation allowances are brought together. The members of the Country Risk Committee are the heads of the Corporate Centre Credit Risk Office and Group Risk, the head of the Macro Research unit and the heads of the business-related Real Estate Lending, Credits, Treasury and Markets units.

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

Organisational structure of risk management in the DekaBank Group *(Fig. 10)*

		Market price risk	Liquidity risk	Credit risk	Operational risk	Business risk	Property risk/ property fund risk	Shareholding risk
Administrative Board (or Audit Committee)	- Overview of current risk situation/risk management system - Discussion of strategic direction with Board of Management	●	●	●	●	●	●	●
Administrative Board (or Credit Committee)	- Loan approval committee - Discussion of the business direction in lending business with Board of Management			●				
Board of Management	- Determines strategic direction - Responsible for Group-wide risk management system - Sets return on equity target and allocation of risk capital to risk types and business divisions - Sets overall limit and approves limits within risk types	●	●	●	●	●	●	●
ALCO [1]	- 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	●	●	●	●	●	●	●
AMK business division	- Conducts transactions in line with strategic guidelines			●		●		
AMI business division	- Conducts transactions in line with strategic guidelines			●		●	●	
C&M business division	- Conducts transactions in line with strategic guidelines	●	●	●				
	- Decisions within the framework determined by ALCO or the Board of Management	●	●					
	- Manages Group-wide credit risk			●				
Credit Risk Office (Corporate Centre)	- Administrative office for early risk identification - Market independent second recommendation - Reviews and/or approves ratings - Checks certain collateral - Monitors transaction management for non-performing and troubled loans			●				
Country Risk Committee	- Assesses country risks			●				
Monitoring Committee	- Monitors and manages exposure at risk of default			●				
Rating Committee	- Further develops and maintains internal rating procedures			●				
Risk control (Corporate Centre Group Risk)	- Development/update of system to quantify, analyse and monitor risks - Report to Board of Management and Administrative Board - Determines/monitors risk-bearing capacity - Monitors approved limits	●	●	●	●	●	●	●
Stress Testing Committee	- Assesses and appraises stress scenarios and stress test results - Specifies stress testing processes - Reports and makes recommendations for action to the Board of Management	●	●	●	●	●	●	●
Equity Investments (Corporate Centre Strategy & Communication)	- Manages equity investment portfolio							●
Compliance (Corporate Centre Legal Affairs)	- Monitors compliance with rules of conduct under capital market law and consumer protection in securities business				●			
Corporate Security Management (Corporate Centre IT/Org)	- Ensures IT security and is responsible for business continuity management				●			
DekaBank Group	- Identifies, measures and manages operational risks on a decentralised basis				●			
Internal Audit (Corporate Centre)	- Audits and evaluates all activities/processes (especially risk management system)	●	●	●	●	●	●	●

[1] ALCO = Asset Liability Committee (composition: Departmental Heads of Treasury, Group Risk, Finance; Head of Markets, Head of Treasury, Head of Corporate Centre Group Risk, Head of Corporate Centre Finance and Head of Macro Research as non-voting guest (AMK)).

Risk control

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

Risk reporting

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

Internal Audit

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

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

New regulatory provisions

The BaFin specified the supervisory requirements for the risk-bearing capacity concepts of banks in guidelines on the supervisory assessment of internal bank risk-bearing capacity concepts, published at the end of 2011, as well as in the revised MaRisk, valid as of the start of 2013 (4th MaRisk amendment). Accordingly, in addition to the management approach mainly followed by means of corresponding adjustments and expansions, alternative points of view relating to continuation or liquidation perspectives must be accommodated as part of the risk-bearing capacity concepts. Furthermore, the 4th MaRisk amendment requires that each institution must implement both case-specific and inverse stress tests.

With a view to capital management, DekaBank initially pursues an approach based on the liquidation perspective (gone concern), which chiefly focuses on protecting creditors at all times, even in extremely rare risk situations. As a complementary measure, an approach based on the continuation perspective (going concern) was implemented in the course of 2012. In the liquidation approach, risks are quantified with strict risk dimensions provided for extremely rare loss events. In the continuation approach, risk monitoring is primarily carried out with regard to what extent the Bank can enter into risks without endangering its continued existence whilst at the same time adhering to supervisory constraints. Accordingly, the risk cover potential still available in the sense of „free" capital is taken into consideration when complying with predetermined capital ratios.

The new system for performing (macro-economic) stress tests across all risk types, which was already introduced in 2011, was continued and updated in the reporting year. Some scenarios were revised and aligned with the current market situation. As part of the risk-bearing capacity analysis, DekaBank continues to consider ten stress scenarios, which cover significant scenarios for the Bank and its portfolio and also comprise inverse stress tests. These are also being extended to include corresponding case-specific stress tests.

Overall risk position of DekaBank

Risk types and definitions

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

Market price risks

Market price risks describe the potential financial loss caused by future market parameter fluctuations and, in this context, comprise interest rate risk (including credit spread risk), currency risk and share price risk.

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

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

The investment companies in the DekaBank Group do not generally take any own market price risks outside of the investment funds. The exceptions to this are the minimal risks arising from short-term investment of own capital and risks from guarantee funds and Riester products.

Credit risks

Credit risk is essentially defined as the risk that a borrower, issuer or counterparty will not fulfil his contractually agreed-on services or will not fulfil them on time and that DekaBank will incur a financial loss as a result.

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

Losses which could arise for the Bank as a result of negative rating migrations of individual business partners or issuers are also part of the credit risk. These are predominantly taken into account within the scope of the credit portfolio model and considered when determining the risk-bearing capacity.

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

Operational risk

Operational risk describes potential losses resulting from the use of internal processes and systems that are inappropriate or susceptible to failure as well as from human error and external events. This also includes changes to political and legal framework conditions. Where losses occur due to an error by the Bank, other risks (secondary risks) frequently arise as a consequence. Examples of such secondary risks include reputational and legal risks.

In contrast, business risks are not a component of operational risk.

Liquidity risk

Liquidity risk is understood as the risk of insolvency as well as the risk resulting from a mismatch of maturities in assets and liabilities. In terms of liquidity risk, DekaBank distinguishes between insolvency risk (liquidity risk in the stricter sense), liquidity maturity transformation risk and market liquidity risk.

Insolvency risk describes the risk that DekaBank cannot meet its current and future payment obligations on time. Insolvency risk therefore constitutes the risk that the Bank's obligations will exceed the available liquid funds at a specific point in time.

Liquidity maturity transformation risk describes the risk that arises from a change in DekaBank's own refinancing curve in the event of mismatches in the liquidity-related maturity structure. DekaBank observes and manages both risk definitions using the funding matrix. Limiting maturity bands ensures liquidity and refinancing forecasts and therefore minimises the liquidity maturity transformation risk.

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

For DekaBank, insolvency risk is not an economic performance risk that can be covered by equity capital. Rather, liquid funds are to be used to ensure solvency.

Business risk

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

Shareholding risk

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

Property risk

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

Property fund risk

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

Liquidity shortage risk

Liquidity shortage risk as a stress scenario describes the risk that in the event of an unexpectedly strong redemption of fund shares, the open-ended Deka property funds will not be in a position to satisfy the redemptions with their own liquidity.

Reputational risk

DekaBank also attaches great importance to reputational risk due to its specific business activity. Reputational risk includes the risk of losses, a decline in income or reduced company value as a result of loss events or other developments that diminish the trust of customers, business or sales partners, rating agencies or media in the Bank's competencies or products. Reputational risks are taken into consideration in corresponding stress scenarios as part of the overall evaluation of the risk-bearing capacity assessment.

Risk measurement concepts

Risk-bearing capacity in accordance with the liquidation approach

For the purposes of capital allocation, DekaBank primarily pursues an approach based on the liquidation perspective, which focuses chiefly on protecting creditors at all times in the notional event of liquidation. This requires the inclusion of even extremely rare risk situations.

As part of the liquidation approach, DekaBank determines its Group risk as a total across all significant risk types that have an effect on income. Group risk is measured as the amount of capital that with a high level of probability will suffice to cover losses from all of the main high risk positions within a year at any time.

DekaBank uses the value-at-risk approach (VaR) in order to quantify individual risks on a uniform basis and aggregate them as an indicator for Group risk. The calculation of the VaR with a holding period of one year is carried out for internal management with a confidence level of 99.9%, which is accordingly derived from the target rating or the business model of DekaBank.

The Group risk determined from the individual risk categories is matched by the risk cover potential. If this is consistently higher than the Group risk, i.e. if the utilisation level stands at less than 100%, the risk-bearing capacity of DekaBank is guaranteed at all times.

Corresponding to the liquidation approach, all capital components which in the hypothetical event of liquidation do not put strain on the senior creditor can be used. To assess the risk-bearing capacity on an additionally differentiated basis, DekaBank distinguishes between primary and secondary risk cover potential in line with the legal position of the investor.

The primary cover potential essentially consists of equity capital according to IFRS and the net income contribution for the year. The expected portfolio-related income components from Asset Management for the next twelve months as well as the accumulated net income for the year are taken into account in the reporting period. Furthermore, the capital components according to IFRS are adjusted for corresponding corrections, for example for hidden charges arising from securities in the investment book or positions such as goodwill.

The secondary cover potential also includes hybrid capital type positions; these comprise profit participation capital and subordinated liabilities – each with a remaining maturity of at least one year – as well as typical silent capital contributions.

The primary cover potential essentially forms the basis for internal management, whereas the secondary cover potential remains as an additional buffer for potential stress situations.

The risk-bearing capacity analysis is conducted monthly and the results are reported to the Board of Management in a timely manner. The Administrative Board is informed on a quarterly basis.

Risk-bearing capacity in accordance with the continuation approach

The aim of the continuation approach that has been additionally taken into consideration since 2012 is defined as the continuation of the Bank in accordance with predefined targets or minimum quotas with regard to regulatory capital requirements.

In principle, this means that risks can only be taken to the extent that capital components are not already committed due to compliance with the previously defined secondary conditions. The secondary conditions taken into account include both core tier 1 capital ratio of 10.5% as a warning threshold and a core tier 1 capital ratio of 9% as a threshold value. In contrast to the liquidation perspective, the risks in the continuation 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. In this context, DekaBank evaluates risks in the continuation approach at a confidence level of 95%.

Stress tests

In addition to the monthly risk-bearing capacity analysis, regular stress tests and scenario analyses are performed for all key market parameters, in order to assess the impact of extreme market developments. This ensures that the risk consideration and risk-bearing capacity are also guaranteed in situations which cannot be derived directly from statistical data. The analysis covers all individual material risk types such as market price risk positions (interest rate, credit spreads, share prices and exchange rates) as well as liquidity risk and credit risk. In the course of macro-economic scenarios, various combinations relevant for the Bank and its portfolio are regularly reviewed across all risk types with regard to their effect on the income and risk situation. In this context, reputational risk is also included in the corresponding stress tests.

The macro-economic stress tests quantified since 2011 and revised in 2012 overall cover both historical scenarios (for example for financial market crisis or terrorism risks) as well as hypothetical stress situations, for instance the default of a specific counterparty that is important for the Bank. Furthermore, "inverse" stress tests, in which specific manifestations are examined for certain scenarios that would lead to the risk-bearing capacity limit being reached, are also considered by DekaBank on an annual basis. All scenarios are regularly assessed in terms of their suitability and are supplemented by corresponding ad-hoc analyses upon request. The scenario results are approved quarterly by the Bank's Stress Testing Committee, against the background of the risk-bearing capacity as well. This allows fields of action to be identified as early as possible in the event of emerging crisis situations.

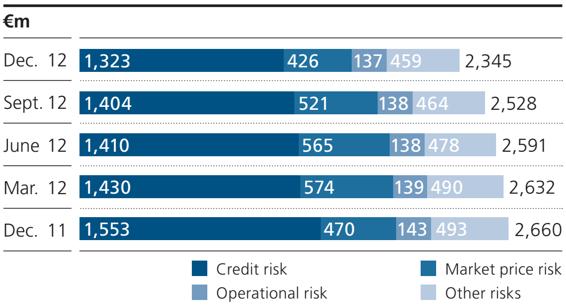
Overall risk position in financial year 2012

The risk models of DekaBank have mapped market developments promptly in this reporting year as well. The easing of tension in the financial and capital markets in the second half of the year is reflected by a decrease in market price risk and credit risk. In addition, the reduction in the volume of individual securities in the non-core business, whilst safeguarding assets at the same time, contributed to a lower risk level. The countervailing effect that resulted from the expansion of strategic liquidity reserves in the Treasury Investments unit was significantly overcompensated on the whole.

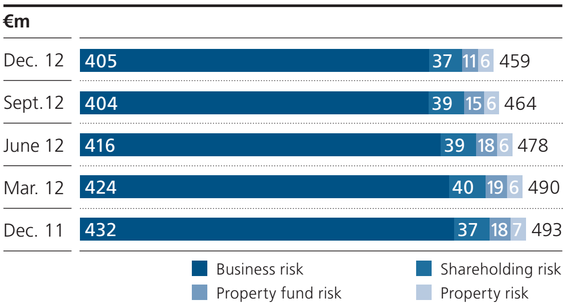
As at year-end, the utilisation of the risk cover potential in the management-relevant liquidation approach was 45.8%, compared with 56.7% at the 2011 reporting date, with regard to the overall risk-bearing capacity of the DekaBank Group. The primary risk cover potential was utilised to 60.9% (end of 2011: 77.8%).

Of Group risk totalling €2,345m (end of 2011: €2,660m), €2,040m (end of 2011: €2,372m) was allocated to core business and €404m (end of 2011: €434m) to non-core business (Figs. 11 and 12).

Change in Group risk over the course of the year *(Fig. 11)*



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



The decrease in Group risk is primarily attributed to credit risk, which stood at €1,323m (end of 2011: €1,553m) as at year-end. At the same time, lower migration risks, in particular, had an effect due to narrower risk surcharges in the various rating classes. Market price risks, which continued to increase towards mid-year due to higher spread volatilities, were lower than the previous year's level (€470m) at year-end, totalling €426m. Declining business risk was also a factor, whilst the other risks considered as part of the risk-bearing capacity changed only marginally.

In addition to the reduction of Group risk, the increase in the primary risk cover potential contributed significantly to lower utilisation. In the course of the year, primary risk cover potential increased by €428m, or 12.5%, to €3,849m, attributed amongst other things to higher retained earnings due to the partial retention of the 2011 consolidated profit.

In the macro-economic stress scenarios examined, the overall risk-bearing capacity was also ensured throughout the year. At the end of 2012, the forecasted utilisation rate of the overall risk-bearing capacity for year-end 2013 was below 90%, even at its peak.

In the continuation approach that has been additionally considered since 2012, the utilisation rate also appeared to be non-critical overall. Based on a risk with a confidence level of 95% and after the deduction of capital requirements, taking into account a core tier 1 capital ratio of 10.5% for core tier 1 capital, the utilisation rate totalled only 45.4% at year-end.

Market price risks

Risk management and monitoring

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

Within the risk management organisation, the full Board of Management decides upon the strategic direction of the DekaBank Group. Based on the recommendation of the ALCO, it determines the permissible overall risk for the Group and the capital allocation at the risk type level and for both the core and non-core business. ALCO generally meets twice a month to discuss the current strategic risk position. Daily risk monitoring and reporting is carried out by the Market Risk Control unit in the Corporate Centre Group Risk. In the event of limit overruns, Market Risk Control immediately informs the full Board of Management and the responsible decision-makers. The Risk Models unit in the Corporate Centre Group Risk is responsible for the development of the methodology, quality assurance and validation of the processes used to quantify market price risks.

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

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

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

Quantifying market price risks

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

The value-at-risk ratios are determined daily, using a sensitivity-based Monte Carlo simulation. The input parameters for this risk model are the sensitivity variables delta, gamma and vega (the Greeks). These first and second-ranking sensitivities express the price sensitivity of financial instruments to changes to the underlying risk factors and facilitate the assessment of the overall risk of linear and non-linear products. They are available as additional management parameters for risk estimation beyond the limitation.

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

Value-at-risk (VaR)

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

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

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

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

Sensitivities

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

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

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

Scenario analyses

Alongside the analysis of risks as part of the VaR procedure, scenario analyses are also important for managing and monitoring risk. In this regard, DekaBank distinguishes between sensitivity analyses and stress scenarios.

Sensitivity analyses are defined as simple shifts in the various risk factors relating to changes in interest rates, credit spreads, share prices and exchange rates. The sensitivity analyses are used for the operating management of risks arising from trading and Treasury positions.

Risk-type specific stress scenarios are used to analyse the impact of historic and hypothetical scenarios which affect several risk factors at the same time. In light of the turmoil in the financial markets, the stress scenarios for the credit spread risk of capital market credit products were continually further developed. DekaBank currently analyses four different stress scenarios. On the one hand, they include scenarios for which the model parameters used were stipulated based on the historic movement in credit spreads for various asset and rating classes during the financial market crisis. At the same time, hypothetical scenarios are calculated. The potential loss arising from expected changes in market value in the scenarios is calculated using extreme risk premiums on various capital market credit products against swap rates.

Backtesting of VaR risk ratios and validation

In addition to detailed validation of the individual assumptions used in the model, backtesting for various portfolio levels is regularly conducted in order to test the validity of the VaR forecast. In this process, the daily results, which are theoretically achieved assuming unchanged positions on the basis of the market developments observed on the following day, are compared with the forecast value-at-risk figures for the previous day. The backtesting results are also used to further develop the risk model. A report with the results is submitted to the ALCO on a quarterly basis. The backtesting results verify the general suitability of the market risk measurement on both the institute level and the level of subordinate organisational units.

Reporting of market price risks

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

Current risk situation

With a VaR of €45.3m over a holding period of ten days and a confidence level of 95%, the overall market price risk as at the reporting date was lower than in the previous year (€51.7m); (Fig. 13). A decrease in the second half of the year against the backdrop of an eased financial and capital market environment followed an increase in the first half of the year, which was primarily caused by higher spread volatilities.

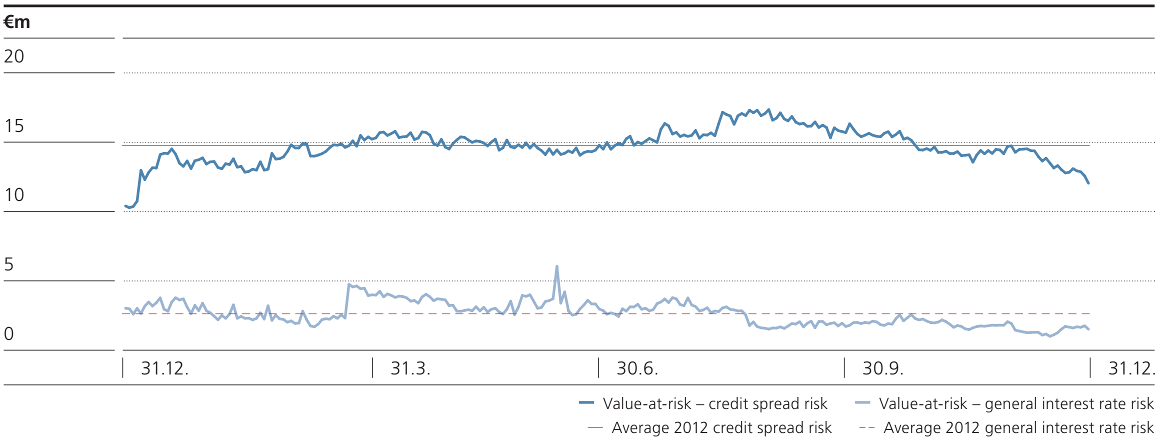
Value-at-risk at the DekaBank Group[1] (Confidence level 95%, holding period 10 days) *(Fig. 13)*

€m Category	Core business	Non-core business	31.12.2012 Group	Core business	Non-core business	31.12.2011 Group	Change in risk
Interest rate risk	41.8	13.3	44.5	47.6	16.1	51.2	−13.2%
Interest rate – general	2.7	1.5	2.7	4.2	4.6	7.7	−65.0%
Spread	41.5	13.2	44.4	47.9	15.3	52.0	−14.6%
Share price risk	3.1		3.1	6.3		6.3	−51.1%
Currency risk	1.7	1.3	0.6	4.7	3.8	1.1	−45.2%
Total risk	**42.3**	**13.5**	**45.3**	**48.7**	**16.8**	**51.7**	−12.4%

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

The credit spread risk, which stood at €59.6m at mid-year, decreased to €44.4m by year-end due to narrowing spread curves and lower spread volatilities, and thus was lower than compared with the previous year's level (€52.0m). In particular, as a result, the risk-reducing effect was significantly in the Treasury banking book. Here, the VaR amounted to €30.7m as at the reporting date, compared with €39.5m in the previous year, despite the expansion of strategic liquidity reserves. In the Markets trading book, the credit spread risk totalled €11.7m (previous year: €10.2m); (Fig. 14).

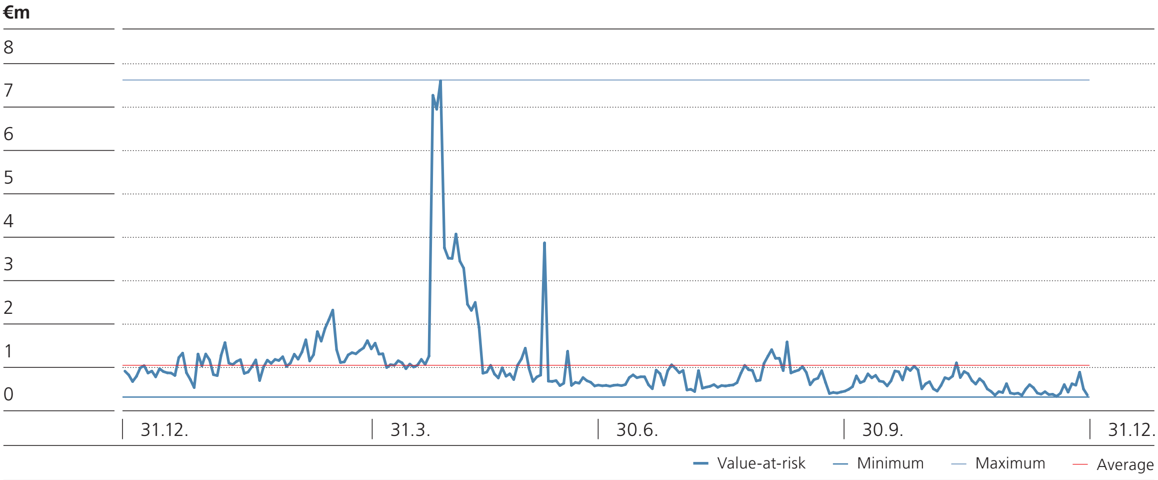
Value-at-risk – General interest rate risk and credit spread risk in Markets trading over the course of the year 2012 *(Fig. 14)*



The significant decrease in the general interest risk of €7.7m at the end of 2011 to just €2.7m reflected the reduction in the portfolio of risk assets, primarily in the non-core business, as well as the lower market interest rate level. At €1.8m, the general interest risk in the Markets trading book remained below the previous year's figure (€3.2m).

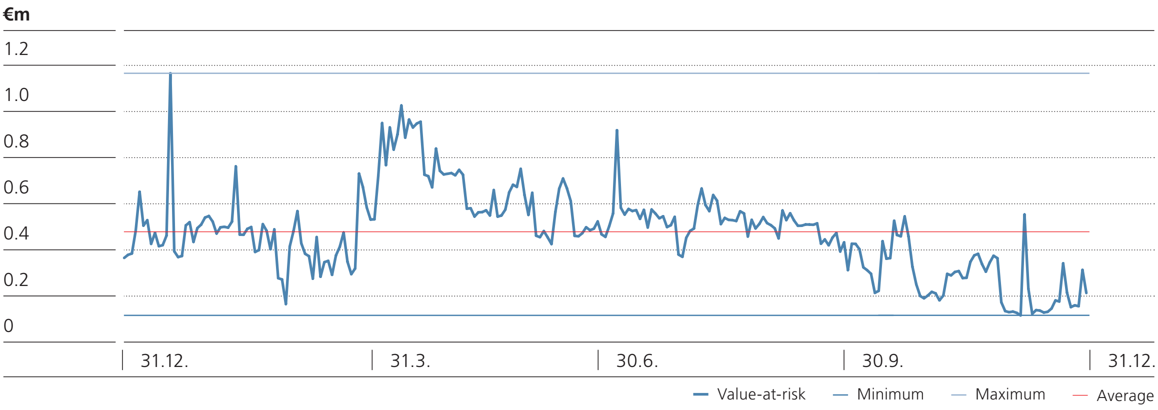
The share price risk, which largely results from the start-up financing of funds in the Markets sub-division, was €3.1m and thus also lower than the risk level of the previous year (€6.3m). This was mainly due to reduced volatilities and a reduction of positions. In the Markets trading book, the share price risk stood at €0.4m (previous year: €0.9m); (Fig. 15). With the exception of individual reporting date fluctuations in the course of the year, the risk level remained at a relatively constant level. The corresponding limits were maintained at all times.

Value-at-risk – Share price risk in Markets trading over the course of the year 2012 *(Fig. 15)*



At €0.6m, currency risk was once again at a low level. The continued decline as compared with the previous year's figure (€1.1m) was primarily caused by the differing market developments in the euro and US dollar. At the end of 2012, the currency risks in the Markets trading book amounted to €0.2m (end of 2011: €0.3m); (Fig. 16).

Value-at-risk – Currency risk in Markets trading over the course of the year 2012 *(Fig. 16)*



Credit risks

Risk management and monitoring

Organisation of credit risk management

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

In line with the MaRisk, certain tasks in the credit process have to be performed by departments other than the front office. Consequently, the Corporate Centre Credit Risk Office is the administration office for early risk identification and responsible for the market-independent second recommendation for loan decisions as well as for reviewing and approving creditworthiness analyses and ratings. With regard to capital market transactions, the Corporate Centre Credit Risk Office is also responsible for preparation. Moreover, the Corporate Centre Credit Risk Office ensures the quality of the credit processes, develops them further if required and monitors the transaction management of non-performing and troubled loans as a permanent member of the Monitoring Committee. In addition to the head of the Corporate Centre Credit Risk Office, the members of this committee, which is responsible for managing and monitoring the processing of troubled exposures, include the heads of the Credits, Markets and Treasury sub-divisions from the C&M division, the head of the Real Estate Lending sub-division in AMI and the head of the Corporate Centre Legal Affairs. The Corporate Centre Credit Risk Office has a right of veto in the Monitoring Committee.

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

Independent risk assessment and monitoring is guaranteed by the functional and organisational separation of the Corporate Centres Credit Risk Office and Group Risk from the C&M division as well as the Real Estate Lending sub-division in AMI and the AMK division (sales direct customer transactions and private banking).

Management, monitoring and limiting of credit risks

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

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

Special risk-limiting standards apply in the Credits sub-division, depending on the type of financing. In project financing, for example, care is taken to ensure technological security as well as suitable price risk and cost reserves; appropriate equity capital participation of the financing recipient and access to cash flows which secure debt service are also pertinent in this respect. In public infrastructure finance, the assessment of the financed property and of the operator plays a key role, while country and supplier risks are particularly relevant in ECA-covered export and trade financing.

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

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

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

The AMK private customer lending business largely comprises Lombard loans, futures and options as well as forward exchange transactions within the scope of servicing affluent private customers. Credit is only granted upon provision of valuable collateral. In addition, transactions for the purpose of illustrating the guarantee payment of guaranteed funds are included in the loan volume. Since the reporting year, the loan volume in AMK has also been reported separately and differentiated by risk segment. The figures for the previous year have been adjusted accordingly in order to achieve better comparability.

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

Assessing creditworthiness

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

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

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

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

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

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

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

All of the rating modules that are used are calibrated to a one-year probability of default. Within the *Landesbanken* participating in the cooperative project, rating classes are uniformly assigned, corresponding to the probability of default. This scale serves as a standard reference point for a differentiated creditworthiness assessment. The DSGV master scale provides for a total of 21 rating classes for non-defaulting borrowers and three for defaulting borrowers.

The three default classes reflect the need to facilitate the recording of default events on a differentiated basis. Regulatory default definitions in connection with Basel II encompass a wide range of default events, which can range from temporary payment problems up to insolvency of the borrower. Each rating class is allocated a mean probability of default. On the whole, the DSGV master scale facilitates an extraordinarily differentiated measurement and forecast of default risks, which takes account of the requirements of DekaBank's market environment to a large extent. The ratings are updated annually and as required.

Quantifying credit risks

Limit monitoring

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

Issuer risks arising from bonds and guarantor positions relating to credit default swaps in the trading book are monitored on the basis of a global limit based on the holding period, unless relevant individual counterparty-related limits exist.

Limit overruns at the economic borrower unit level or global limit level are reported immediately to the full Board of Management. Further limits such as portfolio-related limits under the Investment Directive for Structured Capital Market Investments and limits for value fluctuations of securities collateral in repo/lending business are also monitored separately. The previous ratings-based global limit for country risks was replaced by a differentiated limit system in the reporting period, with which the country risks for each risk country (excluding Germany) are now explicitly limited and monitored. The responsibility for this lies with the Country Risk Committee, additionally established this year.

Default monitoring

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

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

In order to recognise provisions for loan losses in the balance sheet, the individual loan receivables are checked for impairment. If the Bank identifies impairments, specific valuation allowances in the corresponding amount are recognised. For non-impaired receivables, the default risk and transfer risk are taken into account by recognising portfolio valuation allowances. Portfolio valuation allowances for country risks are generally recognised as of an internal rating of 10 in accordance with the DSGV master scale. Deviations have to be justified on a case-by-case basis. For countries with better ratings, a valuation allowance can be recognised in individual cases. Portfolio valuation allowances for creditworthiness risks relate to impairments in the loan portfolio which have already occurred at the reporting date but were not yet known. Provisions are created to take account of creditworthiness risks in off-balance sheet lending business.

Credit portfolio model

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

The portfolio model is largely based on a credit metrics approach. Along with the default risks in the narrower sense, the risks arising from a change in creditworthiness are also taken into consideration in the form of rating migrations. The probability allocation for credit risk induced changes in the value of the portfolio is generated using a Monte Carlo simulation. The collateral recognised when determining the loss ratio is taken into account based on individual cases from rating modules for project financing. Within the scope of further developing the model during the reporting year, the structure of the weighting curves in particular was adapted to suit the market situation that recently changed significantly. A very moderately higher reported risk arose from this further development at the overall portfolio level.

A key result of the portfolio model is that it determines a credit-value-at-risk (CVaR) with a confidence level of 99.9% and an assumed holding period of one year. The CVaR is currently determined each month on a Group-wide basis and incorporated in the processes and reports relevant to the management and monitoring of credit risks. It is included in the risk-bearing capacity analysis, taking into account the provisions for loan losses. In addition to ongoing monthly calculations, the effects of relevant scenarios are analysed quarterly with regard to default probabilities, loss ratios or correlations in the course of stress tests specific to counterparty risk even under stressed conditions, and the results are reported to the Stress Testing Committee.

Credit risk reporting

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

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

The reported risk segments were further differentiated during the 2012 financial year. In order to transparently illustrate the increasingly significant business with the savings banks, this business is no longer included in the financial institutions risk segment but is instead summarised in a separate „savings banks“ risk segment; the previous year's figures have been adjusted accordingly. In addition, some risk segments have been renamed for consistency with internal management.

As a component of the risk report in accordance with MaRisk, the credit risk report is prepared at the end of every quarter and submitted to the Board of Management and in condensed form to the Administrative Board.

Current risk situation

During this reporting year as well, DekaBank only took on new exposures on a very selective basis. The loan volumes at year-end were significantly lower as compared with the previous year.

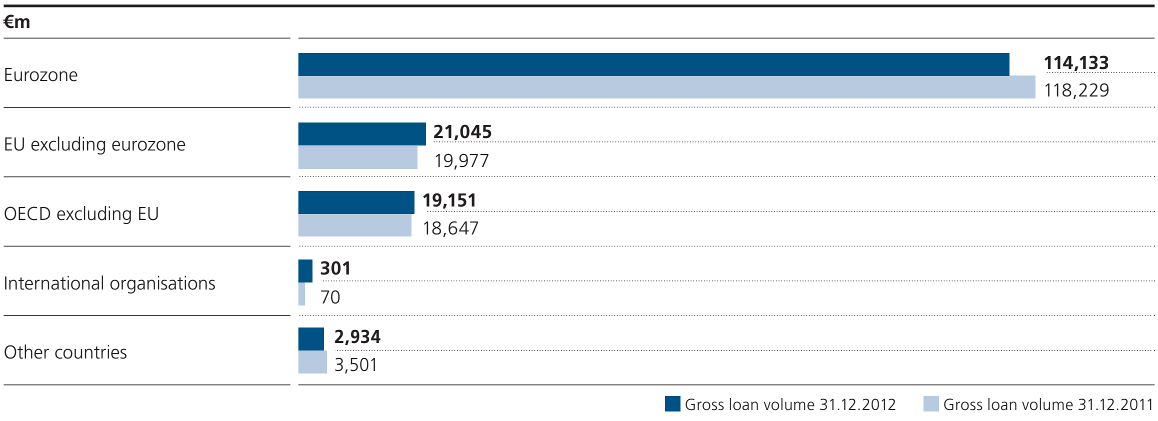
At €157.6bn, the gross loan volume as of the 2012 reporting date was down on the previous year (€160.4bn). On the one hand, this was mainly attributed to a decrease in the savings banks risk segment. On the other hand, the volume in the corporates risk segment reduced, primarily due to a lower volume of collateralised equity spot deals as well as a decrease in bond holdings. In contrast, the increase in the financial institutions risk segment was primarily attributable to higher volumes in secured repo transactions. The increased volume in the public sector finance (Germany) risk segment was chiefly the result of an increase in secured bonds in the trading portfolio. The financial institutions and savings banks risk segments together represented 60.5% (previous year: 58.9%) of the gross loan volume (Fig. 17).

Gross loan volume *(Fig. 17)*

€m	31.12.2012	31.12.2011
Financial institutions	77,948	74,350
Public sector	19,827	16,622
Savings banks	17,339	20,139
Corporates	11,905	16,867
Funds (transactions and units)	10,091	9,761
Property risk	8,202	8,229
Transport & export finance	5,192	5,964
Energy and utility infrastructure	2,345	3,085
Other	4,717	5,408
Total	**157,565**	**160,425**

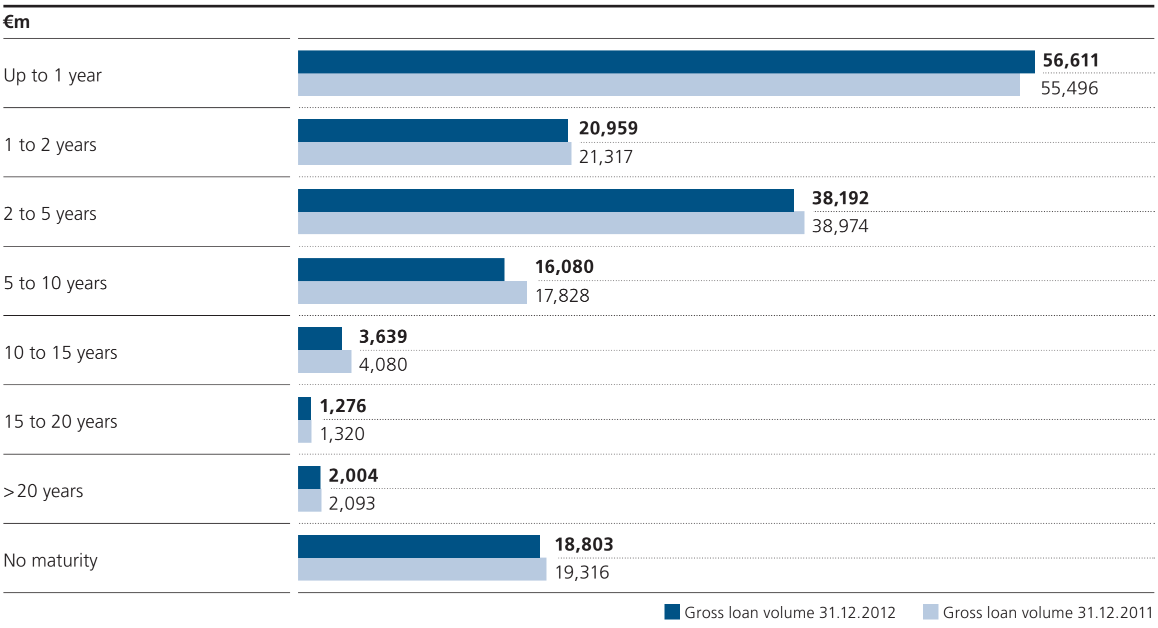
The decrease in the gross loan volume with domestic counterparties declined more sharply than the overall gross loan volume. As a result, the Federal Republic of Germany's share of overall volume has decreased slightly to 53.5% (previous year: 54.8%). Volumes in the other eurozone countries also declined as compared with the previous year, and consequently, the eurozone's share in the gross loan volume dropped marginally in the course of the year to 72.4% (previous year: 73.7%). The gross loan volume increased slightly in the EU outside the eurozone, primarily due to a higher volume in Great Britain. The OECD states outside of the EU also exceeded the previous year's figure, mainly due to an increase in Switzerland (Fig. 18).

Gross loan volume by region *(Fig. 18)*



In the course of the year, the average legal maturity of the gross loan volume fell from 3.1 years to 3.0 years. 35.9% (previous year: 34.6%) was allocated to a maturity of less than one year, whilst the share of longer maturities of ten years or more decreased to 4.4% (previous year: 4.7%), (Fig. 19).

Gross loan volume by remaining maturity *(Fig. 19)*



As at year-end 2012, the net loan volume totalled €50.7bn (previous year: €52.4bn) and therefore also dropped slightly. The decrease was primarily attributable to the savings banks risk segment. Financial institutions and savings banks together also represented the largest proportion of the remaining net loan volume (Fig. 20).

Net loan volume *(Fig. 20)*

€m	31.12.2012	31.12.2011
Financial institutions	19,878	20,071
Savings banks	11,122	11,917
Corporates	5,933	6,281
Funds (transactions and units)	5,331	3,572
Property risk	2,252	3,064
Energy and utility infrastructure	2,242	3,024
Transport & export finance	775	840
Other	3,184	3,672
Total	**50,717**	**52,440**

In financial year 2012, the concentration of the loan portfolio remained virtually unchanged. As at year-end, the ten largest borrowers made up just over 23.8% (end of 2011: 25.6%) of the net loan volume. 80% of the net loan volume was concentrated on 5.6% (previous year: 5.4%) of borrower units.

Calculated according to the DSGV master scale, the average rating remained at 4 on a net basis or 3 on a gross basis. The average probability of default in the portfolio remained unchanged in the net loan volume at 24 basis points. In the gross loan volume, the average probability of default also remained unchanged at 17 basis points.

In the net loan volume, negative rating migrations of more than one notch made up just under 9% of the volume. In Financial Institutions, the most important risk segment by volume, the average rating declined from A+ to A. However, the segment continues to demonstrate good creditworthiness, with an average probability of default of 7 basis points (Fig. 21).

Net loan volume by risk segment and rating *(Fig. 21)*

€m	Average PD in bps	Average rating 31.12.2012	31.12.2012	Average PD in bps	Average rating 31.12.2011	31.12.2011
Financial institutions	7	A	19,878	5	A+	20,071
Savings banks	1	AAA	11,122	1	AAA	11,917
Corporates	30	4	5,933	57	6	6,281
Public sector international	8	A–	1,431	7	A	1,888
Public sector Germany	1	AAA	209	1	AAA	35
Public infrastructure	211	9	1,069	179	9	1,078
Transport & export finance	153	8	775	129	8	840
Energy and utility infrastructure	151	8	2,242	96	7	3,024
Property risk	77	7	2,252	56	6	3,064
Retail portfolio	25	4	381	7	A	539
Funds (transaction and units)	14	3	5,331	15	3	3,572
Equity investments	113	8	92	125	8	133
Total result	**24**	**4**	**50,717**	**24**	**4**	**52,440**

Risk situation in the PIIGS countries

At the end of 2012, the gross loan volume to borrowers in the Euro countries with downgraded credit ratings, Portugal, Italy, Ireland, Greece and Spain, amounted to only €4.4bn (end of 2011: €5.9bn). On the one hand, this is attributed to a decline in volume as compared with the Euro core countries, which together make up a gross loan volume of €311m. On the other hand, the gross loan volume related to banks (€–300m) and companies (€–716m) in the affected countries also decreased in the course of the year (Fig. 22).

Gross loan volume by PIIGS countries and sector as at 31 December 2012 *(Fig. 22)*

€m	Greece	Ireland	Spain	Italy	Portugal	Total
Core country	0	4	92	203	12	311
Public sector	0	0	107	0	0	107
Banks	0	137	954	706	51	1,847
Companies	259	430	546	648	49	1,932
Other	0	20	49	113	0	183
Total result	**259**	**591**	**1,748**	**1,670**	**112**	**4,380**
Change vs. previous year						
Core country	–47	–1	–97	–113	–69	–328
Public sector	0	0	–140	–7	0	–147
Banks	0	38	–362	129	–105	–300
Companies	–186	5	–416	–72	–47	–716
Other	0	–16	–4	–26	–3	–49
Total result	**–233**	**25**	**–1,020**	**–88**	**–224**	**–1,540**

Due to a high level of collateralisation in many cases, the net loan volume amounted to just €2.3bn, commensurate to a reduction of €877m as compared with the previous year. The Euro core countries accounted for only €182m of the net loan volume. The continued decline is also due to reduced volumes related to banks (€–300m) and companies (€–255m), as is the case with the gross loan volume.

The CVaR as a component of Group risk (confidence level 99.9%, risk horizon one year) decreased by 14.8% to €1,323m as compared with the end of 2011 (€1,553m). The risk reduction can primarily be attributed to the calming of the financial markets after measures were taken to tackle the European national debt crisis. Migration risks declined due to the narrowing of risk surcharges. The opposing effects were more than offset by the establishment of strategic liquidity reserves, individual rating downgrades and increases in exposures related to selected counterparties, particularly those of individual guarantee funds. The share of CVaR allocated to German counterparties decreased to 40.2% (end of 2011: 55.8%), while the proportion allocated to the rest of the eurozone and other European countries increased overall. Counterparties from the financial industry continued to make the largest contribution to total CVaR by sector, with a share of 42%. In view of the increasing cyclicality of the underlying counterparties and more stringent and extensive supervisory requirements, a further increase in the corresponding ratio is expected in the future.

The provisions for loan losses reported in the balance sheet decreased from €773.1m at the end of 2011 to €724.1m at the end of 2012, largely as a result of the use of specific valuation allowances for loans and securities. With regard to portfolio valuation allowances for country risks, reversals prevailed, while the portfolio valuation allowances for creditworthiness risks and provisions for portfolio risks differed only negligibly from the previous year's values (Fig. 23).

Provisions for loan losses by risk segment *(Fig. 23)*

€m	Financial Institutions	Funds	Transport & Export Finance	Energy and utility infrastructure	Property risk	Public infrastructure	Corporates	Other	31.12.2012	31.12.2011
Impaired gross loan volume[1)]	**527.3**	**0.0**	**432.5**	**88.2**	**90.8**	**195.6**	**34.4**	**0.1**	**1,368.9**	**1,436.2**
Collateral at fair value	**0.0**	**0.0**	**205.1**	**0.0**	**70.0**	**0.0**	**0.0**	**0.0**	**275.1**	**283.0**
Impaired net loan volume[1)]	**527.3**	**0.0**	**227.4**	**88.2**	**20.8**	**195.6**	**34.4**	**0.1**	**1,093.8**	**1,153.1**
Provisions for loan losses[2)]	**377.9**	**0.8**	**165.3**	**42.9**	**72.9**	**28.4**	**34.7**	**1.2**	**724.1**	**773.1**
Specific valuation allowances	374.1	0.0	150.9	27.4	62.3	21.1	22.3	0.1	658.2	694.1
Provisions	0.0	0.0	0.0	2.0	0.0	0.0	0.7	0.0	2.7	2.2
Portfolio valuation allowances for country risks	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.0	1.3	13.7
Portfolio valuation allowances for creditworthiness risks	3.8	0.8	13.1	13.5	10.6	7.3	11.7	1.1	61.9	63.1

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

As collateral for the impaired individual exposures, charges on property were essentially accounted for in the property risk segment and aircraft and ship mortgages as well as sureties were included for the transport & export finance risk segment. Sureties were taken into account when determining portfolio valuation allowances for country risks. Collateral of sustainable value were included when determining portfolio valuation allowances for creditworthiness risks. The assets resulting from the utilisation of held collateral in the past financial year are recognised in the balance sheet in the amount of €3.5m.

Operational risk

The strategy determined by DekaBank for managing operational risks forms the basis for the largely decentralised organisation of risk management for operational risks within the Group. Both the immediate responsibilities and the differentiation from other types of risk as well as the principles for cooperation with other related functions such as Compliance are described in this strategy.

Roles and responsibilities of the management of operational risks

Due to the process-specific nature of operational risks (OR), DekaBank pursues a decentralised approach to identifying, assessing and managing them. This is based on the coordinated cooperation of the following units.

Board of Management

The Board of Management has the overall responsibility for the appropriate handling of operational risks in the DekaBank Group. In this respect, it is specifically responsible for defining the OR strategy, ensuring the required framework conditions for its Group-wide implementation and taking measures for OR management on the Group level.

Central operational risk control

The Group Risk Controlling & OR unit is responsible for the key components of controlling operational risk in the Group. In particular, it has the decision-making authority with regard to the methodology applied to operational risks, the independent OR reporting and the professional support of the infrastructure required for this.

Group units

The decentralised risk identification, measuring and management is carried out by various functions within the individual Group units. While the heads of the M1 units are responsible for the implementation of the requirements specified in the OR strategy and the actual management of operational risks, the OR managers are responsible for the decentralised application of developed methods, particularly with regard to ensuring consistent risk assessments. The OR managers are supported by assessors, who, as process experts, identify and evaluate OR loss scenarios within the scope of a self assessment, and by loss documenters.

Cross-divisional functions

In addition to the methods for which the Group Risk Controlling & OR unit is responsible in the Group, several cross-divisional functions at DekaBank play an important role in identifying, assessing and managing operational risks. In particular, these include the Group Audit, Compliance, Data Protection, Data Security Management, Corporate Security Management and Complaint Management functions.

Instruments used for the management of operational risks

DekaBank uses the following methods and tools to manage operational risks:

- Self assessment
- Scenario analysis
- Risk indicators (as part of the scenario analyses)
- Loss documentation

In order to determine the economic capital requirement for operational risks, DekaBank uses an advanced measurement approach (AMA) recognised by regulatory bodies. In doing so, the operational risk of the Bank is quantified as part of a loss distribution approach based on the methods described above, as well as external loss data. The value-at-risk figures thus identified are incorporated into both the regulatory capital requirement and the internal risk-bearing capacity analysis of the Group.

Reporting of operational risks

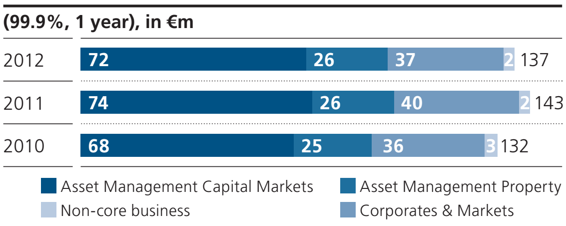
On the basis of the tools described above, the heads of Group units are informed about all significant operational risks on a quarterly reporting basis, thereby facilitating effective management. In addition, an aggregate report is submitted to the Board of Management. Along with summarised information on operational risks in the Group, the report includes detailed information on the implemented and planned measures for major individual OR risks in the Group units.

Current risk situation

At the Group level, the value-at-risk for operational risks determined in accordance with an advanced measurement approach (confidence level 99.9%, risk horizon one year) decreased as compared with the previous year (€143m) by 4% to €137m at the end of 2012 (Fig. 24).

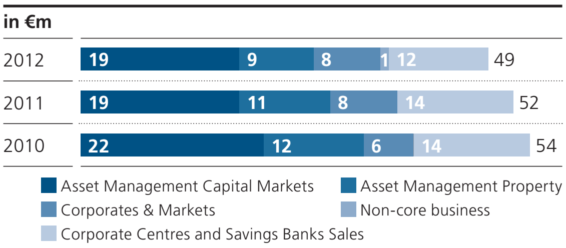
On the one hand, this decrease can be attributed to a lower number of internally and externally observed losses as well as reduced potential loss estimations as part of the Group-wide risk inventory. Amongst other things, risk indicators and the comparison with actual losses incurred had a positive effect. On the other hand, for example, new risk transfer measures were taken with the conclusion of a liability insurance covering economic loss and a fidelity insurance, which had a risk-reducing effect for DekaBank. With regard to the breakdown of value-at-risk by business division for internal management purposes, the Asset Management Capital Markets business division continued to make up the largest proportion of this figure, ahead of the Corporates & Markets division.

Value-at-risk *(Fig. 24)*



At the end of 2012, the loss potential from operational risks determined as part of the Group-wide risk inventory was €48.8m, 6% below the previous year (€52.1m); (Fig. 25). In contrast to value-at-risk as an upper loss limit that cannot be exceeded with a specific probability, the loss potential represents an expected value that arises from the estimated frequency of occurrence and loss amount involved in all operational risk scenarios for the Group. The estimates for several risks were thus lowered, particularly in the Corporate Centres and in Savings Banks Sales as well as in the Asset Management Property division, after they had been successfully reduced by appropriate measures.

Loss potential *(Fig. 25)*



Compliance

In accordance with the Minimum Requirements for Compliance and additional conduct, organisational and transparency obligations in accordance with Sections 31 et seq. of the German Securities Trading Act (WpHG) for Investment Services Enterprises (MaComp), the DekaBank Group has a separate unit which ensures the stability, effectiveness and independence of the Compliance function.

Its responsibilities comprise the prevention of money laundering and financing of terrorism as well as prevention of other criminal offences. In addition, the unit ensures the Bank's compliance with duties and requirements for the capital market and real estate activities in accordance with securities trading legislation as well as with EU financial sanctions and embargoes. The Compliance unit provides ongoing advice to the specialist units in this regard and conducts audits related to adherence with statutory and regulatory requirements concerning compliance as well as the comprehensive compliance instructions.

The Compliance Officer submits a report to the Board of Management at least once a year and is also the point of contact for supervisory authorities and other government offices.

The ongoing implementation and integration of the compliance requirements in general day-to-day business is intended to contribute to the transparent adherence with the compliance standards as well as to reinforcing trust amongst investors and the public and safeguarding customer interests. Furthermore, the compliance regulations also protect the employees and help maintain the DekaBank Group's good reputation in the market. The DekaBank Group's compliance concept is designed in a way that ensures efficient management of conflicts of interest.

Accounting-related internal control and risk management system

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

In principle, risks arise in the accounting process, including through non-uniform use of posting, reporting and accounting standards, as a result of incorrect reporting of business transactions, and due to malfunctions and errors of the IT systems used in accounting.

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

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

The Group guideline covers the reporting of business transactions on a centralised basis. The guideline describes key accounting facts and documents the uniform specialist procedure that applies throughout the entire Group. This ensures that the same business transaction is reported uniformly in different Group units and companies in compliance with the applicable accounting standards. Specific work instructions are used to implement the Group guideline at the operational level in the individual specialist departments and they also provide a description of the control mechanisms to be considered. Guidelines and authorisation concepts have been developed for the central systems which generate accounting information as part of the preparation of financial statements and compliance with these is regularly monitored by internal and external audits.

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

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

Liquidity risks

Risk management and monitoring

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

In principle, liquidity risk is managed on a cross-portfolio and Group-wide basis by the Liquidity Management unit in the Treasury division. All product types are included. The central aims are to avoid liquidity bottlenecks even under stress conditions at the Group level, comprehensively ensure solvency at all times and generate positive profit contributions from liquidity management.

In accordance with the MaRisk requirements, it must be ensured in particular that if the institute's own (idiosyncratic) as well as market-wide (macro-economic) stress factors occur simultaneously, the liquidity is at least equally as high as the expected cash outflows. Risk management by DekaBank ensures that the resultant liquidity requirement can be covered even in a tense market environment. Sufficient, sustainable liquidity reserves are maintained for even short-term deteriorations in the liquidity situation. In order to bridge short-term refinancing requirements of at least one week, only unencumbered highly liquid securities are considered. Over a period of one month, further unused and short-term assets which can be readily converted into cash can be included.

The planning, managing and monitoring of liquidity is based on the liquidity status, various funding matrices under normal (continuation approach) and stress conditions, the liquidity key ratios in line with the liquidity regulation as well as fund monitoring during the year.

DekaBank limits liquidity risk on the basis of a stress-based funding matrix. This limitation also restricts liquidity maturity transformation risk, even under stress conditions.

DekaBank defines liquidity risks that are recognised in income as economic effects which result from unfavourable changes in spreads related to closing potential refinancing gaps of up to one year. As the limitation of the funding matrix prohibits negative liquidity balances, risks arising from refinancing gaps that are recognised in income are not significant at present. Accordingly, inclusion in the risk-bearing capacity analysis is not required.

Quantifying liquidity risk

Liquidity status

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

Funding matrices

In addition, the liquidity position is analysed and monitored by the Liquidity Risk Management unit in the Corporate Centre Group Risk. To this end, DekaBank primarily examines the "Combined stress scenario" funding matrix (FM), which reproduces the simultaneous occurrence of both the institution's own and market-wide stress factors, and fully implements the requirements of the 3rd MaRisk amendment.

The purpose of the funding matrix is to show the undiscounted expected future cash flows across the portfolio as at the reporting date. In addition to these cash flows, the liquidity potential is also considered. In the liquidity potential, the highly liquid and liquid securities and other refinancing options that can be used as sources for liquidity are taken into consideration. The liquidity balance for each maturity band is determined from the cash flows accumulated over time and the liquidity potential. Based on this, the liquidity requirement or surplus is determined under stress conditions for each maturity band in accordance with MaRisk.

The foundation of the model are cash flows based on legal maturities. This approach is based on the total sum of the legal net cash flows per maturity band. The gap between the legal perspective and the expected cash flows is bridged using modelling assumptions. Securities used for the liquidity potential are either allocated to the strategic liquidity reserve or the operational liquidity reserve. The strategic liquidity reserve is used to cover possible stress-induced liquidity outflows from the investment book as well as stochastic liquidity outflows that cannot be influenced by DekaBank or can only be influenced by the Bank to a limited extent (stochastic liquidity position). The Treasury sub-division is responsible for the strategic liquidity reserve. The necessary amount and currency composition of the strategic liquidity reserve is determined on a quarterly basis by the Liquidity Risk Management unit within the Group Risk sub-division. The results are reported to the ALCO. The ALCO defines the amount and currency composition of the strategic liquidity reserve. The operational liquidity reserve includes the securities positions for daily ongoing use by the Short Term Products unit within the Markets sub-division.

In the case of securities used for the liquidity potential, a differentiation is made between:

- highly liquid securities which are suitable for use as a source of liquidity from the very first day,
- liquid securities which can serve as a source of liquidity as of the second week and
- other securities which are available as a source of liquidity as of the second month.

The liquidity balance calculated from the accumulated liquidity potential and accumulated cash flows is managed using a traffic light system comprised of early warning limits and liquidity limits. This allows the investment potential available for each maturity band to be explicitly determined. The liquidity balance must be positive in all monitored maturities; the early warning limit is currently €1.5bn.

The „Combined stress scenario" funding matrix is prepared daily by the Liquidity Risk Management unit in the Corporate Centre Group Risk and made available to the Treasury and Markets sub-divisions.

The Treasury sub-division uses the funding matrix as part of the overall risk management of the Group-wide liquidity position. In contrast, the funding matrix is used for operational, short-term liquidity management in the Markets sub-division.

The Liquidity Risk Management unit in the Corporate Centre Group Risk is responsible for monitoring liquidity risks based on the funding matrices in exactly the same way as the methodical development and quality assurance of the processes used as part of the funding matrices.

Stress scenarios

The "Combined stress scenario" funding matrix maps the liquidity situation of DekaBank under extreme stress conditions. In addition, specific stress scenarios are also separately considered as part of special funding matrices. The underlying models are divided into idiosyncratic and market-related scenarios.

Idiosyncratic scenarios affect DekaBank directly (for example downgrading of DekaBank's creditworthiness by rating agencies). Market-related scenarios are focused on the impact of a funding or banking crisis. Depending on the stress scenario, various modelling assumptions are applied. Amongst other things, market liquidity risks arising from a reduction in the market value of the securities in the liquidity potential are taken into account in the stress scenarios.

Liquidity ratio under the Liquidity Directive

At DekaBank, liquidity risk mitigation measures are also guided by the liquidity requirements of the Liquidity Directive. The Liquidity Directive specifies the requirements of Section 11 (1), clause 1 of the German Banking Act (KWG), according to which financial institutes must be sufficiently liquid at all times. The liquidity ratio pursuant to the Liquidity Directive is calculated as the ratio of short-term cash inflows and outflows of DekaBank with a maturity of up to one month. Monitoring ratios for up to one year are also calculated.

In order to ensure timely and adequate management of the liquidity coverage ratio (LCR), the key regulatory liquidity ratio to be fulfilled by 2015, the LCR has been determined on a monthly basis since 2012 and reported to the ALCO.

Reporting of liquidity risk

The above-mentioned funding matrices used for management and risk monitoring purposes are prepared daily by the Corporate Centre Group Risk as part of its independent monitoring process. They include extensive analyses and are submitted to the Liquidity Management and Short Term Products units. The liquidity situation is reported to the ALCO twice weekly. In this regard, limits and early warning limits were defined on the basis of the liquidity balance (= accumulated liquidity gap plus accumulated liquidity potential), which are also monitored by the Corporate Centre Group Risk. Any overruns are reported to the Board of Management via the ALCO. Moreover, the liquidity ratio pursuant to the Liquidity Directive is monitored daily in the reporting system of the Corporate Centre Finance.

Current risk situation

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

During the reporting year, the refinancing profile of DekaBank shifted further in the direction of money market products, which made up 64% (previous year: 51%) of overall refinancing at the end of the year. Repo transactions as well as call money and time deposits were primarily used. The proportion of capital market products decreased accordingly, to 36%. Bearer bonds accounted for the highest volume, followed by registered securities and promissory note loans. The refinancing was also broadly diversified by investor group.

In financial year 2012, the strategic liquidity reserve was further expanded as a component of the liquidity potential. As at year-end, the amount in the strategic liquidity reserve stood at €3.4bn.

As at year-end, the accumulated liquidity balance of the DekaBank Group's "Combined stress scenario" funding matrix in the short-term range (up to one week) amounted to €5.3bn. In the maturity band of up to one month, the surplus totalled €3.8bn and in the medium to long-term range at three months it was €9.5bn. In all maturity bands, the liquidity balances were clearly positive (Fig. 26). This also applies to the alternative stress scenarios considered, as well as the continuation approach.

Combined stress scenario funding matrix of DekaBank Group as at 31 December 2012 *(Fig. 26)*

€m	1D	>1D-1M	>1M-12M	>12M-5Y	>5Y-20Y	>20Y
Liquidity potential (accumulated) [1]	13,461	27,402	4,058	6	9	9
Net cash flows from derivatives (accumulated)	22	−214	−2,374	−4,063	−4,238	−4,238
Net cash flows from other products (accumulated)	−8,499	−23,423	10,866	12,470	9,771	4,278
Liquidity balance (accumulated)	**4,984**	**3,765**	**12,550**	**8,413**	**5,543**	**49**
For information purposes:						
Net cash flows from derivatives by legal maturity (accumulated)	22	−452	−2,710	−5,345	−4,362	−4,362
Net cash flows from other products by legal maturity (accumulated)	−4,086	−26,475	−17,739	745	3,800	3,668
Net cash flows by legal maturity (accumulated)	**−4,064**	**−26,927**	**−20,449**	**−4,600**	**−562**	**−695**

[1] Including synthetic lending substitute transactions.

Overall, the requirements of MaRisk were thus exceeded. In accordance with the new regulatory definition, the highly liquid securities cover a potential cash outflow in the combined stress scenario across all maturity bands, instead of the first month specified in the MaRisk. DekaBank's liquidity position remains very strong even under the specific stress conditions considered. In the short-term maturity band of up to one month, liquidity surpluses were shown in all stress scenarios taken into account.

The regulatory requirements of the Liquidity Directive were again clearly surpassed at all times during the reporting period. The annual average for the liquidity ratio of the first maturity band, determined on a daily basis, was 1.40 (previous year: 1.59). It was always within a range of 1.23 to 1.63. The figure at the close of the year stood at 1.27 (end of 2011: 1.59).

Other risks

Business risk

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

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

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

In the reporting year, the business risk fell to €405m (end of 2011: €432m). The decisive factor for this was the lower overall business risk. The risk-reducing effect arising from the decrease in net commissions in the AMK business division was partly offset by an increase in commissions in the AMI division.

Shareholding risk

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

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

At the end of 2012, the VaR related to the shareholding risk remained unchanged from the previous year at €37m.

Property risk

The property risk is measured on the basis of the IFRS book values of the property held in the Bank's portfolio and the volatilities in the relative changes in value of the property in the respective location. With a VaR of €6m, the property risk was of secondary importance, as was the case in the previous year (€7m).

Property fund risk

The property fund risk results from property fund units held in the Bank's own portfolio. With a VaR of €11m (previous year: €18m), the property fund risk remained at a low level and did not represent any significant risk for DekaBank. The decrease is attributable to the reduction in the Bank's own portfolio volumes.

Liquidity shortage risk

Liquidity shortage risk does not represent any significant risk for DekaBank.

Structured capital market credit products

The structured capital market credit products comprise the securitisations portfolio of the former Liquid Credits portfolio, which is no longer considered to be strategic and whose assets are being reduced while safeguarding assets. It is assigned to non-core business.

Volume development

In the securitisations portfolio, the net nominal value decreased from €1.9bn to €1.5bn in the previous year. This was primarily due to disposals that were mainly below investment-grade as well as several partial repayments.

Approach and valuation

The valuation of structured capital market credit products categorised at fair value is market-oriented. Accordingly, any changes in the positions categorised at fair value are reported directly in the income statement. No actual nominal or interest defaults occurred in the tranches in 2012. Likewise, no specific valuation allowances were required as part of an impairment test. Indicative prices from pricing service agencies and brokers are used at year-end to establish the book value of assets in the at fair value category. The book values of loans and receivables (lar) positions are determined on the basis of amortised costs. No specific valuation allowance was required for any of these positions as part of an impairment test. With regard to lar positions, no nominal and interest defaults occurred.

Rating overview

In the securitisation portfolio, 90.0% of the ratings showed an investment grade from a nominal perspective (end of 2011: 87.1%). The increase can be attributed to the fact that asset positions were primarily reduced in areas with poorer ratings. However, there were individual downgrades in the portfolio as a whole (Fig. 27).

Structured capital market credit products by rating class (nominal value in €m) *(Fig. 27)*

Product		AAA	AA	A	BBB	Non investment grade	Unrated	Total (previous year)
Structured	ABS	17	0	24	5	26	0	73 (157)
	RMBS	35	20	228	51	27	0	361 (467)
	CMBS	172	50	187	72	6	0	486 (561)
	CLO	11	259	98	68	19	0	454 (538)
	CSO	0	0	0	0	75	0	75 (75)
	Structured Finance CDO	0	0	0	20	0	0	20 (30)
Alternative	CPPI	0	0	50	0	0	0	50 (50)
Total		**235**	**329**	**587**	**215**	**152**	**0**	**1,519 (1,878)**

Country overview

The remaining structured capital market credit portfolio remains focused on countries in Western Europe. 77% of the securitisations relate to the European market. With regard to CMBS positions, a large proportion were UK securitisations as well as securitisations from the Benelux states, as is the case with market distribution. The only noteworthy positions outside of Europe are CLO and CSO securitisation transactions as well as CPPIs (Fig. 28).

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

Product	Structured						Alternative	Total
Land	**ABS**	**RMBS**	**CMBS**	**CLO**	**CSO**	**Structured finance CDO**	**CPPI**	**(previous year)**
Germany	2	16	127	0	0	0	0	146 (211)
UK	15	93	174	0	0	0	0	281 (384)
Spain	1	75	0	0	0	0	0	76 (102)
Italy	23	115	13	0	0	0	0	151 (180)
Benelux	0	35	172	0	0	0	0	207 (222)
Rest of Europe	0	27	0	269	0	20	0	316 (396)
USA	32	0	0	186	75	0	50	343 (384)
Total	**73**	**361**	**486**	**454**	**75**	**20**	**50**	**1,519 (1,878)**

Maturity profile

In the case of securitised products still in the portfolio as part of the non-core business, the expected maturity is taken into consideration in addition to the legal final maturity, since the forecast cash flows can deviate from the legal cash flows. As at the 2012 reporting date, the expected remaining maturity of the positions was 4.1 years. According to current expectations, around half of the remaining securitisation positions will be redeemed or will expire by mid-2016.

Current risk situation

Based on a confidence level of 95% and a holding period of ten days as at year-end, the spread risk for the securitisation positions of the non-core business totalled €12.4m (end of 2011: €14.8m). As a result, the reduction of positions in the poorer ratings segment also impacted on the spread value-at-risk as did the reduced spread volatility.

Annual financial statements

Balance sheet as at 31 December 2012

Assets	€	€	€	31.12.2012 €	31.12.2011 €'000
1. Cash reserves					
a) Cash on hand			5,483.91		205
b) Balances with central banks			3,312,963,912.29	3,312,969,396.20	245,602
of which: with Deutsche Bundesbank	3,312,963,912.29				(245,602)
2. Due from banks					
a) due on demand			5,223,395,177.46		7,637,099
b) other claims			19,185,343,843.69	24,408,739,021.15	23,357,307
of which: public sector loans	6,742,739,217.18				(8,731,851)
3. Due from customers				18,104,935,194.24	19,179,860
of which:					
mortgage loans	830,810,277.62				(589,497)
public sector loans	3,579,357,460.90				(4,394,629)
other loans secured by mortgages	69,962,777.63				(30,455)
4. Bonds and other fixed-interest securities					
a) Bonds and debt securities					
aa) from public sector issuers		2,671,629,602.52			1,521,129
of which: eligible as collateral with Deutsche Bundesbank	2,486,331,809.30				(1,394,966)
ab) from other issuers		10,450,845,349.95	13,122,474,952.47		9,653,903
of which: eligible as collateral with Deutsche Bundesbank	6,933,368,147.97				(5,809,895)
b) own bonds			2,052,814,536.37	15,175,289,488.84	556,950
Nominal amount	2,047,505,644.10				(551,829)
5. Shares and other non fixed-interest securities				3,870,979,992.33	3,929,806
6. Trading portfolio				65,009,753,311.87	65,682,940
7. Equity investments				63,755,306.16	61,328
of which: in banks	2,789,404.99				(2,789)
8. Shares in affiliated companies				368,194,605.05	368,195
of which:					
in banks	72,158,448.57				(72,158)
in financial services providers	11,687,450.00				(11,687)
9. Trust assets				214,993,872.02	210,054
10. Intangible assets					
a) Concessions, industrial property rights, and similar rights and values as well as licences there to, acquired for a consideration			37,946,695.00		33,111
b) Advance payments			3,063,927.67	41,010,622.67	5,265
11. Tangible assets				18,229,752.32	19,619
12. Other assets				162,664,135.65	280,073
13. Prepaid expenses and accrued income					
a) from underwriting and lending business			26,735,139.55		47,428
b) other			23,797,476.66	50,532,616.21	25,939
14. Excess of plan assets over pension liabilities				9,169,889.80	7,088
Total assets				**130,811,217,204.51**	**132,822,901**

Liabilities	€	€	€	31.12.2012 €	31.12.2011 €'000
1. Due to banks					
a) due on demand			3,674,558,295.19		3,917,082
b) with agreed maturity or period of notice			16,639,123,236.09	20,313,681,531.28	16,861,577
of which: registered public sector Pfandbriefe	1,559,980,077.59				(2,439,035)
2. Due to customers					
Other liabilities					
a) due on demand			3,924,152,567.08		4,805,855
b) with agreed maturity or period of notice			14,370,873,340.27	18,295,025,907.35	15,300,830
of which: registered public sector Pfandbriefe	5,210,971,974.17				(5,837,596)
3. Securitised liabilities					
a) bonds issued			28,968,634,298.44		31,892,080
of which:					
mortgage Pfandbriefe	35,301,249.46				(45,449)
public sector Pfandbriefe	5,483,036,929.41				(7,919,944)
b) other securitised liabilities			5,815,924,889.42	34,784,559,187.86	1,058,214
of which: money market paper	5,815,924,889.42				(1,058,214)
4. Trading portfolio				52,090,992,366.89	53,417,270
5. Trust liabilities				214,993,963.48	209,919
6. Other liabilities				596,006,721.26	830,769
7. Accruals and deferred income					
a) from underwriting and lending business			16,600,911.09		28,370
b) other			15,947,386.02	32,548,297.11	11,925
8. Provisions					
a) provisions for pensions and similar obligations			0.00		267
b) provisions for taxes			77,723,679.10		185,022
c) other provisions			462,661,477.10	540,385,156.20	466,939
9. Subordinated liabilities				733,727,128.00	822,103
10. Profit participation capital				20,000,000.00	78,000
of which:					
due in less than two years	20,000,000.00				(58,000)
11. Fund for general banking risks				2,031,819,582.52	1,770,382
of which:					
special item pursuant to Section 340e (4) HGB	68,706,000.00				(35,906)
12. Equity					
a) Subscribed capital					
aa) subscribed capital		191,729,340.56			191,729
ab) silent capital contributions		552,360,457.03	744,089,797.59		552,360
b) Capital reserve			189,366,198.03		189,366
c) Retained earnings					
ca) reserves required by the Bank's statutes		51,283,598.27			51,284
cb) other retained earnings		114,068,590.47	165,352,188.74		114,069
d) Net income			58,669,178.20	1,157,477,362.56	67,489
Total liabilities				**130,811,217,204.51**	**132,822,901**

1. Contingent liabilities					
Liabilities from guarantees and warranty agreements				2,050,625,876.67	2,030,382
2. Other liabilities					
Irrevocable lending commitments				1,321,357,095.80	1,651,142

Income statement for the period 1 January to 31 December 2012

Expenses and income	€	€	€	2012 €	2011 €'000
1. Interest income from					
a) Lending and money market transactions		3,807,703,832.19			3,928,159
b) Fixed-income securities and debt register claims		366,019,592.79	4,173,723,424.98		453,600
2. Interest expenses			4,142,897,732.31	30,825,692.67	4,244,481
3. Current income from					
a) Shares and other non fixed-interest securities			93,012,071.48		85,632
b) Equity investments			2,681,921.88		3,120
c) Shares in affiliated companies			175,542,878.05	271,236,871.41	245,021
4. Income from profit pooling, profit transfer and partial profit transfer agreements				152,869,459.26	108,253
5. Commission income			766,933,574.92		769,893
6. Commission expenses			611,472,318.41	155,461,256.51	578,204
7. Net income/expenses from trading portfolio				295,174,483.13	184,473
8. Other operating income				308,715,135.67	337,329
9. General administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		233,682,184.34			209,009
ab) Social security contributions and expenses for pensions and other employee benefits		51,440,127.79	285,122,312.13		38,537
of which: for retirement pensions	25,013,774.29				(12,901)
b) Other administrative expenses			375,966,805.23	661,089,117.36	383,776
10. Write-downs and valuation allowances on intangible assets and tangible assets				12,998,665.13	10,029
11. Other operating expenses				37,463,298.57	53,246
12. Write-downs and valuation allowances on claims and certain securities and allocations to provisions for loan losses				21,233,684.73	201,766
13. Allocations to the fund for general banking risks				228,637,999.42	128,225
14. Write-downs and valuation allowances on equity investments, shares in affiliates and securities held as fixed assets				0.00	79,666
15. Income from write-ups to equity investments, shares in affiliates and securities held as fixed assets				6,459,260.82	0
16. Expenses due to assumption of losses				5,301,654.30	17,992
17. Profit or loss on ordinary activities				254,017,739.96	170,549
18. Income taxes				143,135,827.56	45,284
19. Income transferred under profit pooling, profit transfer or partial profit transfer agreements				52,212,734.20	57,776
20. Net income				58,669,178.20	67,489

Notes

General information

1 Preparation of the annual financial statements

The annual financial statements of DekaBank Deutsche Girozentrale for the year ended 31 December 2012 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 face value due. Differences between the amount received and the amount repayable were reported in accruals and deferred income and written back as scheduled.

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

Valuation of securities portfolios and derivatives

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

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

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

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

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

On-balance sheet and off-balance sheet interest rate financial instruments in the banking book, which are allocated to the interest book, are valued as a valuation object. 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 risk and administration costs. The recognition of a provision was not required.

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

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

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

As at 31 December 2012, DekaBank took Credit Value Adjustments (CVA) for OTC derivatives into consideration for the first time in order to account for the credit risk of counterparties. The credit risk resulting from OTC derivatives had already been identified for the derivatives business in previous reporting periods; however, it had not been taken into account due to their lack of materiality. The adjustments reduced the trading profit or loss by €16.7m.

Fixed assets

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

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

Currency translation

Assets and liabilities in foreign currency as well as claims and commitments from foreign exchange transactions in the non-trading portfolio were translated and valued according to the regulations contained in Section 340h in conjunction with Section 256a HGB. 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 were accrued on a pro rata basis and reported in net interest income.

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

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

Provisions for loan losses

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

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

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

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

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

Provisions

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

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

3 Derivative transactions

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

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

Derivative transactions – volume – trading portfolio

	Nominal values		Full fair values positive market values	Full fair values negative market values
€m	**31.12.2012**	**31.12.2011**	**31.12.2012**	**31.12.2012**
Interest rate risks				
Interest rate swaps	316,710.4	484,840.5	7,994.6	6,918.4
Forward rate agreements	9,857.0	21,992.0	0.6	0.9
Interest rate options				
Purchases	923.8	716.9	22.8	0.6
Sales	1,755.3	1,461.4	4.7	67.0
Caps, floors	2,066.1	1,320.5	14.5	8.3
Stock exchange traded contracts	20,555.2	17,697.0	1.0	4.1
Other interest rate forward transactions	2,382.6	2,961.9	25.2	231.9
Total	**354,250.4**	**530,990.2**	**8,063.4**	**7,231.2**
Currency risks				
Forward exchange transactions	4,416.5	3,376.6	73.4	40.6
Currency swaps, interest rate currency swaps	1,382.5	1,173.7	44.5	44.6
Total	**5,799.0**	**4,550.3**	**117.9**	**85.2**
Share and other price risks				
Share forward transactions	431.9	451.6	43.6	13.3
Share options				
Purchases	3,285.1	6,082.2	3,083.7	—
Sales	1,645.1	2,855.1	—	4,218.6
Stock exchange traded contracts	62,735.5	89,569.2	3,709.2	7,573.2
Credit derivatives	11,320.6	11,466.0	116.2	107.0
Other forward transactions	2,689.4	709.8	0.9	93.6
Total	**82,107.6**	**111,133.9**	**6,953.6**	**12,005.7**
Overall total	**442,157.0**	**646,674.4**	**15,134.9**	**19,322.1**

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

	Interest rate risks		Currency risks		Share and other price risks	
€m	**31.12.2012**	**31.12.2011**	**31.12.2012**	**31.12.2011**	**31.12.2012**	**31.12.2011**
Residual term to maturity						
less than 3 months	81,728.7	131,861.7	1,867.5	1,333.5	9,460.1	7,565.9
from 3 months to 1 year	74,113.3	158,966.1	2,582.9	2,042.1	34,683.6	36,643.1
from 1 year to 5 years	127,948.4	152,346.6	386.7	310.2	36,189.9	53,529.2
more than 5 years	70,460.0	87,815.8	961.9	864.5	1,774.0	13,395.7
Total	**354,250.4**	**530,990.2**	**5,799.0**	**4,550.3**	**82,107.6**	**111,133.9**

Derivative transactions – classification by counterparties – trading portfolio

€m	Nominal values 31.12.2012	Nominal values 31.12.2011	Full fair values positive market values 31.12.2012	Full fair values negative market values 31.12.2012
Banks in the OECD	292,952.7	505,558.1	7,737.1	7,427.7
Public sector entities in the OECD	8,837.3	4,396.4	386.0	114.9
Other counterparties	140,367.0	136,719.9	7,011.8	11,779.5
Total	**442,157.0**	**646,674.4**	**15,134.9**	**19,322.1**

Derivative transactions – volume – non-trading portfolio

€m	Nominal values 31.12.2012	Nominal values 31.12.2011	Full fair values positive market values 31.12.2012	Full fair values negative market values 31.12.2012
Interest rate risks				
Interest rate swaps	62,623.6	83,564.7	2,630.9	2,767.9
Forward rate agreements	1,750.0	–	–	–
Stock exchange traded contracts	309.7	158.7	–	0.2
Other interest rate forward transactions	55.0	111.6	–	18.3
Total	**64,738.3**	**83,835.0**	**2,630.9**	**2,786.4**
Currency risks				
Forward exchange transactions	8,217.7	5,370.9	34.7	92.7
Currency swaps, interest rate currency swaps	8,325.5	9,446.3	269.6	701.0
Total	**16,543.2**	**14,817.2**	**304.3**	**793.7**
Share and other price risks				
Share options				
Purchases	26.9	30.6	7.2	–
Sales	–	–	–	–
Stock exchange traded contracts	191.5	227.9	3.8	30.4
Credit derivatives	1,117.5	1,606.5	8.3	6.4
Other forward transactions	–	48.5	–	–
Total	**1,335.9**	**1,913.5**	**19.3**	**36.8**
Overall total	**82,617.4**	**100,565.7**	**2,954.5**	**3,616.9**

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

	Interest rate risks		Currency risks		Share and other price risks	
€m	**31.12.2012**	**31.12.2011**	**31.12.2012**	**31.12.2011**	**31.12.2012**	**31.12.2011**
Residual term to maturity						
less than 3 months	13,596.2	17,985.9	5,773.5	3,023.1	90.3	69.2
from 3 months to 1 year	17,627.1	11,380.1	4,312.9	4,448.5	135.0	263.5
from 1 year to 5 years	24,269.9	42,842.2	4,523.3	5,182.2	928.6	1,349.8
more than 5 years	9,245.1	11,626.8	1,933.5	2,163.4	182.0	231.0
Total	**64,738.3**	**83,835.0**	**16,543.2**	**14,817.2**	**1,335.9**	**1,913.5**

Derivative transactions – classification by counterparties – non-trading portfolio

	Nominal values		Full fair values positive market values	Full fair values negative market values
€m	**31.12.2012**	**31.12.2011**	**31.12.2012**	**31.12.2012**
Banks in the OECD	67,937.8	89,633.8	2,552.5	3,250.2
Public sector entities in the OECD	731.9	–	41.1	22.5
Other counterparties	13,947.7	10,931.9	360.9	344.2
Total	**82,617.4**	**100,565.7**	**2,954.5**	**3,616.9**

The market values of stock exchange traded contracts are shown before offsetting with the variation margin paid or received respectively.

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

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

Name, location	**Equity interest in %**	**Equity [1] €'000**	**Result [2] €'000**
Shares in affiliated companies			
DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg	100.00	597,096.2	441,021.0
Deka Investment GmbH, Frankfurt/Main	100.00	83,174.4	95,935.0 [3]
Deka Immobilien GmbH, Frankfurt/Main	100.00	38,764.7	18,492.9 [3]
Deka Immobilien Investment GmbH, Frankfurt/Main	100.00	31,245.1	30,860.1 [3]
Deka Grundstücksverwaltungsgesellschaft I (GbR), Frankfurt/Main	100.00	20,068.6	1,445.8
ETFlab Investment GmbH, Munich	100.00	10,008.7	–4,129.6 [3]
Deka Real Estate Lending k.k., Tokyo	100.00	2,318.1	–1,847.5
Deutsche Landesbankenzentrale AG, Berlin	100.00	1,495.2	14.9
Gesellschaft für Mittelstandskreditfonds der Sparkassen-Finanzgruppe mbH, Frankfurt/Main	100.00	1,387.7	320.9
Deka Beteiligungsgesellschaft mbH, Frankfurt/Main	100.00	1,001.7	23.6
Deka Investors Investment AG (Teilgesellschaftsvermögen Unternehmensaktien), Frankfurt/Main	100.00	293.8	–2.4
DKC Deka Kommunal Consult GmbH, Düsseldorf	100.00	203.2	–1,165.3 [3]
Deka Treuhand GmbH, Frankfurt/Main	100.00	64.0	–3.0
Deka Vermögensverwaltungs GmbH, Frankfurt/Main	100.00	65.4	3.6 [3]
STIER Immobilien AG, Frankfurt/Main	100.00	49.4	–0.3
LBG Leasing Beteiligungs-GmbH, Frankfurt/Main	100.00	32.2	–0.3
Deka Treuhand Erwerbsgeselllschaft mbH, Frankfurt/Main	100.00	25.0	–6.3 [3]

Name, location	Equity interest in %	Equity [1] €'000	Result [2] €'000
Deka Vorratsgesellschaft 01 mbH, Frankfurt/Main	100.00	25.0	–0.5 [3]
Deka Verwaltungs GmbH, Frankfurt/Main	100.00	22.5	0.5
WestInvest Gesellschaft für Investmentfonds mbH, Düsseldorf	99.74	11,338.6	8,427.8 [3]
WIV GmbH & Co. Beteiligungs KG, Frankfurt/Main	94.90	12,890.6	790.6
WIV Verwaltungs GmbH, Frankfurt/Main	94.90	55.5	3.0
Deka(Swiss) Privatbank AG, Zurich	80.00	48,351.8	3,472.7
Equity investments			
Sparkassen-PensionsManagement GmbH, Cologne	50.00	114,457.5	–7,851.0
Deka-Neuburger Institut für wirtschaftsmathematische Beratung GmbH, Frankfurt/Main	50.00	18.5	–2.5
Dealis Fund Operations GmbH, Frankfurt/Main	49.90	20,756.1	1,621.6
S Broker AG & Co. KG. Wiesbaden	30.64	27,655.0	107.6
Indirect equity investments			
Deka International S.A., Luxembourg	100.00	196,122.4	118,659.0
VM Bank International S.A. i.L., Luxembourg	100.00	32,672.0	2,672.0
International Fund Management S.A., Luxembourg	100.00	30,577.3	20,918.0
Roturo S.A., Luxembourg	100.00	3,040.7	12.2
Deka Immobilien Luxembourg S.A., Luxembourg	100.00	667.4	69.8
Deka Immobilien k.k., Tokyo	100.00	586.0	–62.9
Banking Services Luxembourg S.à.r.l., Luxembourg	100.00	379.9	–17.8
Deka Immobilien Beteiligungsgesellschaft mbH, Frankfurt/Main	100.00	142.8	7.4
Perfeus S.A., Luxembourg	100.00	41.2	0.5
Datogon S.A., Luxembourg	100.00	37.9	0.8
Europäisches Kommunalinstitut S.à.r.l., Luxembourg	100.00	15.6	0.1
Sparkassen Pensionskasse AG, Cologne	50.00	71,588.9	2,821.7
Sparkassen Pensionsfonds AG, Cologne	50.00	7,965.0	–468.8
Sparkassen PensionsBeratung GmbH i.L., Cologne	50.00	100.0	–1,781.1 [3]
Heubeck AG, Cologne	45.00	5,299.4	1,139.0
Compendata Gesellschaft zur Verwaltung von Vorsorgeeinrichtungen mbh, Cologne	45.00	90.0	23.0
Richttafeln-Unterstützungskasse GmbH, Cologne	45.00	69.0	1.0
Dr. Heubeck Ges. mbH, Vienna	45.00	69.0	38.0
Heubeck Richttafeln GmbH, Cologne	45.00	34.0	43.0
S Broker Management AG, Wiesbaden	30.64	47.3	–2.7
HEUBECK-FERI Pension Asset Consulting GmbH, Bad Homburg v.d.H.	22.50	371.1	161.4

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

Off-balance sheet contingent liabilities

5 **Letter of comfort**

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

6 Other financial commitments

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

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

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

There is an additional funding obligation for the security reserve of the Landesbanken and central savings banks of €67.9m (previous year: €59.6m).

Notes to the balance sheet

7 Due from banks

€m	31.12.2012	31.12.2011
This item includes:		
Loans to		
affiliated companies	255.9	271.3
companies in which an interest is held	–	–
Subordinated loans	–	–
Sub item b. (other claims) – breaks down according to residual term to maturity as follows:		
less than three months	2,811.8	4,881.2
from three months to one year	3,371.6	2,571.5
from one year to five years	11,324.6	13,712.3
more than five years	1,677.3	2,192.3
	19,185.3	**23,357.3**
Used as cover funds	**8,155.5**	**10,936.6**

8 Due from customers

€m	31.12.2012	31.12.2011
This item includes:		
Loans to		
affiliated companies	152.8	129.5
companies in which an interest is held	62.9	15.2
Subordinated loans	–	–
This item breaks down by residual term to maturity as follows:		
with indefinite term to maturity	123.8	41.8
less than three months	1,357.8	999.4
from three months to one year	1,795.5	2,406.9
from one year to five years	10,016.7	10,029.8
more than five years	4,811.1	5,702.0
	18,104.9	**19,179.9**
Used as cover funds	**4,592.0**	**4,987.5**

9 Bonds and other fixed-interest securities

€m	31.12.2012	31.12.2011
The marketable securities comprising this item include:		
listed	13,438.5	10,247.8
unlisted	1,736.8	1,484.2
Subordinated securities	**29.1**	**29.5**
Due within one year	**1,394.2**	**630.5**
Used as cover funds	**2,344.4**	**2,482.2**
Book value of securities valued according to the diluted lower of cost or market principle	3,792.2	3,920.5
Book value of securities reported at more than fair value	1,611.3	2,214.5
Market value of securities reported at more than fair value	1,560.1	1,995.7

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

10 Shares and other non-fixed interest securities

€m	31.12.2012	31.12.2011
The marketable securities comprising this item include:		
listed	0.0	8.2
unlisted	914.9	991.7
Subordinated securities	**–**	–

11 Trading portfolio (assets)

This item breaks down as follows:

€m	31.12.2012	31.12.2011
Derivative financial instruments	15,131.2	19,471.4
Receivables	23,337.4	23,432.0
Bonds and other fixed-interest securities	25,316.1	21,482.7
Shares and other non fixed-interest securities	1,249.9	1,323.8
Other assets	0.0	1.1
Risk mark-down	–24.9	–28.1
	65,009.8	**65,682.9**

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 €90.8m and amounts due from customers of €124.2m.

15 Tangible assets

€m	31.12.2012	31.12.2011
This item includes:		
Land and buildings used for the Bank’s business activities	2.8	2.8
Office equipment	15.4	16.8

16 Changes in fixed assets

€m						Book value	
Asset items	**Cost of acquisition/ production**	**Additions**	**Disposals**	**Accumulated depreciation/ amortisation**	**Depreciation/ amortisation for the year**	**31.12.2012**	**31.12.2011**
		Changes +/- [1]					
Equity investments			+2.5			63.8	61.3
Shares in affiliated companies			0.0			368.2	368.2
Securities held as fixed assets			–133.5			3,792.2	3,925.7
Intangible assets	100.3	13.1	0.0	72.4	10.5	41.0	38.4
Tangible assets	63.3	1.0	1.9	44.2	2.5	18.2	19.6
Total						**4,283.4**	**4,413.2**

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

17 Other assets

€m	31.12.2012	31.12.2011
This item includes amongst others:		
Tax refund claims	88.0	196.4
Premiums paid and margins for derivative financial instruments	14.4	17.6
Overpaid profit shares of the atypical silent partners	18.6	19.6
Corporation tax. capital gains tax and solidarity surcharge refunds	–	1.3

18 Prepaid expenses and accrued income

€m	31.12.2012	31.12.2011
This item includes:		
Premium/discount from underwriting and lending business	26.7	47.4
Prepaid expenses and accrued income – derivative financial instruments	8.2	8.5

19 Genuine repurchase agreements

As at 31 December 2012, the book value of lent securities or securities sold under repurchase agreements amounts to €4,471.2m (previous year: €2,141.3m). Pass-through securities lending transactions of €5,295.2m (previous year: €5,333.5) were also carried out.

20 Collateral transfer for own liabilities

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

€m	31.12.2012	31.12.2011
Due to banks	747.1	746.8
Due to customers	150.0	154.0
Trading portfolio (liabilities)	4,030.9	1,904.2

The collateral was provided mainly for borrowings as part of genuine repurchase agreements. In addition, securities with a book value of €3,706.7m (previous year: €4,362.7m) were pledged at German and foreign futures exchanges as collateral for transactions and securities and loan receivables with a book value of €3,454.1m (previous year: €3,924.5m) were lodged with Deutsche Bundesbank. As at the reporting date, there were no open market transactions.

21 Units or investment shares

€m	Book value 31.12.2012	Market value 31.12.2012	Difference market value – book value	Distribution 2012	Daily redemption possible	Omitted depreciation
Equity funds	169.7	178.2	8.5	3.4	Yes	No
Bond funds	1,090.9	1,248.7	157.8	28.2	Yes	No
Mixed funds	2,624.0	2,881.6	257.6	50.9	Yes	No
Funds of funds	7.4	7.4	0.0	0.0	Yes	No
Other funds	416.7	406.5	-10.2	8.9	No	No
Funds of hedge funds	33.8	38.2	4.4	0.0	No	No
Total	**4,342.5**	**4,760.6**	**418.0**			

22 Due to banks

€m	31.12.2012	31.12.2011
This item includes:		
Liabilities to		
affiliated companies	4,462.7	4,286.3
companies in which an interest is held	5.3	–
Sub item b (with agreed maturity or period of notice) breaks down by residual term to maturity as follows:		
less than three months	8,602.1	6,313.4
from three months to one year	3,714.2	4,041.1
from one year to five years	2,778.3	4,563.1
more than five years	1,544.5	1,944.0
	16,639.1	**16,861.6**

23 Due to customers

€m	31.12.2012	31.12.2011
This item includes:		
Liabilities to		
affiliated companies	274.7	291.7
companies in which an interest is held	92.6	106.6
Sub item b (with agreed maturity or period of notice) breaks down by residual term to maturity as follows:		
less than three months	2,950.7	2,978.1
from three months to one year	3,074.6	2,213.6
from one year to five years	4,978.1	6,341.5
more than five years	3,367.5	3,767.6
	14,370.9	**15,300.8**

24 Securitised liabilities

€m	31.12.2012	31.12.2011
Proportion of sub item a (issued bonds) maturing in the following year	**7,091.1**	**3,512.6**
Sub item b (other securities liabilities) breaks down by residual term to maturity as follows:		
less than three months	5,815.9	610.5
from three months to one year	0.0	447.7
	5,815.9	**1,058.2**

25 Trading portfolio (liabilities)

This item breaks down as follows:

€m	31.12.2012	31.12.2011
Derivative financial instruments	19,311.0	26,812.1
Liabilities	32,780.0	26,605.2
	52,091.0	**53,417.3**

26 Trust liabilities

Trust liabilities comprise €90.8m in amounts due to banks and €124.2m in amounts due to customers.

27 Other liabilities

€m	31.12.2012	31.12.2011
This item includes:		
Foreign exchange equalisation items	402.3	615.9
Bonuses for sales offices	64.9	55.3
Trade payables	41.6	48.2
Premiums received and margins for derivative financial instruments	31.1	35.3
Due to custodial customers	2.4	5.1
Interest on participating certificates	1.3	5.0

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 %	2012
Pension trend for adjustments according to Section 16 (2) Company Pensions Fund Act (BetrAVG)	2.00
Pension adjustment with overall trend updating	2.50
Salary trend	2.50

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

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

Provisions for pensions and similar commitments are discounted at the average market interest rate of the past seven years published by Deutsche Bundesbank for an assumed residual time to maturity of 15 years. This interest rate stands at 5.05%.

€m	31.12.2012
Pension provisions	
Acquisition cost of plan assets	239.2
Fair value of plan assets	281.2
Settlement amount of offset liabilities	272.0
Income from plan assets	20.1
Expenses for adding interest	12.5
Excess of plan assets over pension liabilities	**9.2**

The valuation of cover assets at fair value produces an amount that exceeds the historical cost of these assets of €42.0m, which is not blocked for distribution in accordance with Section 268 (8) HGB, since the free reserves of the company exceed this figure.

29 Accruals and deferred income

€m	31.12.2012	31.12.2011
This item includes:		
Premiums/discounts from underwriting and lending business	16.6	28.4
Accruals and deferred income – derivative financial instruments	8.1	10.0

30 Subordinated liabilities

€m	31.12.2012	31.12.2011
Expenses from subordinated liabilities	41.7	41.7
Accrued interest on subordinated liabilities	18.7	22.1

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

The subordinated liabilities comply with the requirements of Section 10 (5a) of the German Banking Act (KWG). The conversion of these funds into capital or any other form of debt has not been agreed or planned. DekaBank has no obligation to make an early repayment. As at the reporting date, subordinated liabilities of €534.9m meet the criteria for recognition as liable equity under Section 10 KWG.

31 Equity

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

€m	31.12.2012	31.12.2011
a) Subscribed capital		
Subscribed capital	191.7	191.7
Typical silent capital contributions	500.0	500.0
Atypical silent capital contributions	52.4	52.4
b) Capital reserves	189.4	189.4
c) Retained earnings		
Reserves required by the Bank's statutes	51.3	51.3
Other retained earnings	114.1	114.1
Balance sheet equity	**1,098.9**	**1,098.9**

In 2002, typical silent capital contributions (tranche II) with a nominal amount of €500m were accepted for an indefinite period of time (perpetuals). DekaBank may only terminate these contributions with the consent of BaFin (Federal Financial Supervisory Authority) and a notice period of 24 months to the end of a financial year. Termination by the silent partners is excluded. Interest expenses for perpetuals amounted to €27.8m (previous year: €35.9m) and are reported in net interest income.

32 Contingent and other liabilities

The off-balance sheet contingent liabilities amounting to €2,050.6m include guarantees and sureties as well as liabilities under CDS transactions as protection seller. There are also irrevocable loan commitments of €1,321.4m. Following the credit rating analyses carried out, it can essentially be assumed that borrowers will meet their commitments and no utilisation is therefore expected. Loan provisions were recognised in individual cases where the default of the borrower is likely.

33 Foreign currency volumes

€m	31.12.2012	31.12.2011
Foreign currency assets	12,470.7	11,683.9
Foreign currency liabilities	6,303.2	5,314.4

Notes to the income statement

34 Net income from the trading portfolio

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

35 Other operating income

Other operating income consists mainly of €266.2m from Group offsetting, €16.8m from the reversal of provisions and €2.5m in foreign exchange profit in the non-trading book.

36 Other operating expenses

This item includes transfers to provisions amounting to €12.5m and €8.1m from Group offsetting.

37 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.

38 Management and intermediary services provided for third parties

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

Information relating to Pfandbrief business

39 Calculation of cover for mortgage and public sector lending business

Mortgage Pfandbriefe

Total amounts by nominal value and net present value

	Nominal value		Net present value		Net present value + 250 BP		Net present value – 250 BP	
€m	2012	2011	2012	2011	2012	2011	2012	2011
Outstanding mortgage Pfandbriefe	35.0	45.0	35.9	45.9	35.2	44.7	36.7	47.2
Cover funds mortgage Pfandbriefe	200.0	179.9	214.6	192.4	205.4	182.2	226.5	205.5
Cover surplus/shortfall	165.0	134.9	178.7	146.5	170.2	137.5	189.8	158.3

Maturity structure

Maturity ranges	Less than 1 Year		From 1 year to 2 years		From 2 years to 3 years		From 3 years to 4 years	
€m	2012	2011	2012	2011	2012	2011	2012	2011
Outstanding mortgage Pfandbriefe	10.0	10.0	0.0	10.0	0.0	0.0	20.0	0.0
Cover funds mortgage Pfandbriefe	32.8	0.0	23.7	33.2	103.5	23.7	0.0	43.7

Maturity ranges	From 4 years to 5 years		From 5 years to 10 years		More than 10 years		Total	
€m	2012	2011	2012	2011	2012	2011	2012	2011
Outstanding mortgage Pfandbriefe	5.0	20.0	0.0	5.0	0.0	0.0	35.0	45.0
Cover funds mortgage Pfandbriefe	0.0	25.2	40.0	54.1	0.0	0.0	200.0	179.9

Total amount of additional cover assets

€m	2012	2011
Additional cover assets in accordance with Section 19 (1) No.s 2 and 3 PfandbG	48.7	48.7

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

N.B. The net present value is calculated in accordance with the static approach pursuant to the Pfandbrief Net Present Value Directive (PfandBarwertV). Deka Bank participates in the credit quality differentiation model of the Association of German Pfandbrief Banks (vdp). During the reporting period, there were no claims on sovereigns or sub-sovereigns in the mortgage register to which haircuts would have to be applied in accordance with the credit quality differentiation model.

Composition of cover funds by country by size

Total amounts	Less than 0.3m [1]		From 0.3m to 5 m [1]		> 5m [1]		Other cover		Total	
€m	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Federal Republic of Germany	0.0	0.0	1.3	1.3	82.8	87.4	48.7	48.7	132.8	137.4
France	0.0	0.0	0.0	0.0	67.2	42.5	0.0	0.0	67.2	42.5
Total	**0.0**	**0.0**	**1.3**	**1.3**	**150.0**	**129.9**	**48.7**	**48.7**	**200.0**	**179.9**

[1] Secured by mortgages

Composition of cover funds by type of use

	Federal Republic of Germany		France		Total	
Total amounts	2012	2011	2012	2011	2012	2011
Commercial use	84.1	88.7	67.2	42.5	151.3	131.2
Other cover	48.7	48.7	0.0	0.0	48.7	48.7
Total	**132.8**	**137.4**	**67.2**	**42.5**	**200.0**	**179.9**

Composition of cover funds by type of building

Total amounts	Federal Republic of Germany 2012	Federal Republic of Germany 2011	France 2012	France 2011	Total 2012	Total 2011
Office buildings	43.9	34.4	67.2	42.5	111.1	76.9
Retail buildings	25.2	25.2	0.0	0.0	25.2	25.2
Other commercial buildings	15.0	29.1	0.0	0.0	15.0	29.1
Other cover	48.7	48.7	0.0	0.0	48.7	48.7
Total	**132.8**	**137.4**	**67.2**	**42.5**	**200.0**	**179.9**

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

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

As in the previous year, no foreclosure sales were carried out in financial year 2012.

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

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

Public sector Pfandbriefe

Total amounts by nominal value and present value

€m	Nominal value 2012	Nominal value 2011	Present value 2012	Present value 2011	Risk-adjusted present value + 250 BP 2012	Risk-adjusted present value + 250 BP 2011	Risk-adjusted present value – 250 BP 2012	Risk-adjusted present value – 250 BP 2011
Outstanding public sector Pfandbriefe	12,980.6	15,941.7	14,073.6	17,047.6	13,455.6	16,217.3	14,984.0	18,130.0
Cover funds public sector Pfandbriefe	14,892.0	18,226.3	16,078.5	19,565.0	15,309.6	18,527.6	16,732.8	20,496.7
Cover surplus/shortfall	1,911.4	2,284.6	2,004.9	2,517.4	1,854.0	2,310.3	1,748.8	2,366.7

Maturity structure

Maturity ranges	Less than 1 year		From 1 year to 2 years		From 2 years to 3 years		From 3 years to 4 years	
€m	2012	2011	2012	2011	2012	2011	2012	2011
Outstanding public sector Pfandbriefe	5,653.7	3,051.6	3,133.3	5,714.6	1,379.8	2,986.7	199.7	1,379.9
Cover funds public sector Pfandbriefe	3,019.9	2,794.6	3,081.0	2,988.4	4,064.4	3,469.5	357.6	4,333.1

Maturity ranges	From 4 years to 5 years		From 5 years to 10 years		More than 10 years		Total	
€m	2012	2011	2012	2011	2012	2011	2012	2011
Outstanding public sector Pfandbriefe	338.9	199.7	1,621.8	1,708.4	653.4	900.8	12,980.6	15,941.7
Cover funds public sector Pfandbriefe	670.4	359.5	2,601.9	3,072.9	1,096.8	1,208.3	14,892.0	18,226.3

Total amount of additional cover assets

€m	2012	2011
Additional cover assets in accordance with Section 20 (2) No 2 PfandbG	0.8	1.0

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

N.B. The net present value is calculated in accordance with the static approach pursuant to the Pfandbrief Net Present Value Directive (PfandBarwertV). DekaBank participates in the credit quality differentiation model of the Association of German Pfandbrief Banks (vdp). There was no supplementary information in accordance with this model for the reporting period.

Distribution of cover funds

Total nominal value of cover assets by country / type	Country		Regional authorities		Local authorities		Other debtors		Total	
€m	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Federal Republic of Germany	176.0	208.5	2,106.4	2,137.1	359.3	520.5	10,740.6	13,608.1	13,382.3	16,474.2
Denmark	0.0	0.0	0.0	0.0	0.0	0.0	0.0	75.0	0.0	75.0
European Investment Bank (EIB)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	29.9	0.0	29.9
Finland	0.0	0.0	0.0	0.0	21.0	21.0	0.0	0.0	21.0	21.0
Italy	0.0	50.0	0.0	7.7	0.0	0.0	0.0	0.0	0.0	57.7
Canada	0.0	0.0	64.7	66.0	0.0	0.0	37.1	37.9	101.8	103.9
Latvia	0.0	0.0	0.0	0.0	43.7	46.3	0.0	0.0	43.7	46.3
Austria	0.0	0.0	0.0	0.0	0.0	0.0	125.0	0.0	125.0	0.0
Poland	154.0	164.1	0.0	0.0	0.0	0.0	82.9	41.8	236.9	205.9
Portugal	0.0	25.0	0.0	0.0	0.0	0.0	0.0	30.0	0.0	55.0
Slovakia	5.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	5.0	5.0
Spain	0.0	0.0	17.9	11.9	0.0	0.0	3.5	64.9	21.4	76.8
United States of America	0.0	0.0	0.0	0.0	0.0	0.0	545.4	605.7	545.4	605.7
United Kingdom of Great Britain and Northern Ireland	0.0	0.0	0.0	0.0	0.0	0.0	409.5	469.9	409.5	469.9
Total	**335.0**	**452.6**	**2,189.0**	**2,222.7**	**424.0**	**587.8**	**11,944.0**	**14,963.2**	**14,892.0**	**18,226.3**

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

Other information

40 Related party disclosures

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

41 Average number of staff

Number	2012	2011
Full-time employees	2,107	2,115
Part-time and temporary employees	383	370
	2,490	**2,485**

42 Remuneration of Board members

€	2012	2011
Remuneration of active Board members		
Board of Management	3,022,588.66	7,664,690.83
Administrative Board	656,000.00	644,716.68
Remuneration paid to former Board members and surviving dependants		
Board of Management	2,454,892.16	1,939,110.34
Provisions for pension commitments to these persons	34,922,360.58	24,856,252.50

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

In financial year 2012, variable remuneration elements in the amount of €2.3m (previous year: €6.1m) 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 DekaBank Group and are deferred until the three years following the commitment year. The sustainable components of remuneration granted are subject to a two-year holding period and are paid out after that period has elapsed. Distributable earnings, corporate value, the economic result, payments to savings bank alliance partners, net sales performance and the individual contribution of the Board Members are used to determine sustainability. Short-term benefits due to active members of the Board of Management include variable remuneration components of €0.3m from the 2012 commitment year, €0.3m from the 2011 commitment year and €0.2m from the 2010 commitment year.

43 Loans to Board members

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

Seats on supervisory bodies

44 Notes to seats on supervisory bodies (as at January 2013)

Michael Rüdiger (Chairman of the Board of Management from 01.11.2012)		
Member of the Supervisory Board (from 01.01.2013 to 06.01.2013) Chairman of the Supervisory Board (from 07.01.2013)	Deutsche Landesbankenzentrale AG	Berlin

Franz S. Waas (Chairman of the Board of Management until 02.04.2012)		
Chairman of the Supervisory Board (until 02.04.2012)	Deutsche Landesbankenzentrale AG	Berlin
Chairman of the Administrative Board (until 02.04.2012)	Liquiditäts-Konsortialbank GmbH	Frankfurt/Main
Deputy Chairman of the Advisory Board (until 02.04.2012)	VÖB-Service GmbH	Bonn

Oliver Behrens (Member of the Board of Management until 02.04.2012, Acting Chairman from 02.04.2012 to 31.10.2012, Deputy Chairman from 01.11.2012)

Chairman of the Supervisory Board	Deka Investment GmbH	Frankfurt/Main
Member of the Supervisory Board (from 01.05.2012 to 14.05.2012) Chairman of the Supervisory Board (from 15.05.2012 to 31.12.2012)	Deutsche Landesbankenzentrale AG	Berlin
Chairman of the Supervisory Board	Sparkassen Pensionsfonds AG	Cologne
Chairman of the Supervisory Board	ETFlab Investment GmbH	Munich
Chairman of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Chairman of the Administrative Board	Deka(Swiss) Privatbank AG	Zurich, Switzerland
Deputy Chairman of the Supervisory Board	Sparkassen-PensionsManagement GmbH	Cologne
Deputy Chairman of the Supervisory Board	Sparkassen Pensionskasse AG	Cologne
Deputy Chairman of the Supervisory Board (until 31.12.2011)	Sparkassen PensionsBeratung GmbH i.L.	Cologne
Deputy Chairman of the Supervisory Board	S Broker AG & Co. KG	Wiesbaden
Deputy Chairman of the Supervisory Board	S Broker Management AG	Wiesbaden
Member of the Shareholder Committee	Dealis Fund Operations GmbH	Frankfurt/Main
Managing Director	OncamB Vermögensverwaltungsgesellschaft mbH	Bad Soden am Taunus

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

Chairman of the Administrative Board	Deka Immobilien Investment GmbH	Frankfurt/Main
Chairman of the Administrative Board	WestInvest Gesellschaft für Investmentfonds mbH	Düsseldorf
Chairman of the Administrative Board (until 16.05.2012) Member of the Supervisory Board (from 18.05.2012 to 12.06.2012) Chairman of the Supervisory Board (from 13.06.2012)	Deka Immobilien GmbH	Frankfurt/Main
Chairman of the Administrative Board	STIER Immobilien AG	Frankfurt/Main
Deputy Chairman of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Managing Director	Deka Treuhand Erwerbsgesellschaft mbH	Frankfurt/Main

Hans-Jürgen Gutenberger (Member of the Board of Management until 31.07.2012)

Deputy Chairman of the Supervisory Board (until 16.05.2012) Member of the Supervisory Board (from 18.05.2012 to 31.07.2012)	Deka Immobilien GmbH	Frankfurt/Main
Member of the Supervisory Board (until 31.07.2012)	Gesellschaft für Mittelstandskreditfonds der Sparkassen-Finanzgruppe mbH	Frankfurt/Main
Member of the Supervisory Board (until 31.07.2012)	Sparkassen-PensionsManagement GmbH	Cologne
Member of the Supervisory Board (until 31.07.2012)	Sparkassen Pensionsfonds AG	Cologne
Member of the Supervisory Board (until 31.07.2012)	Sparkassen Pensionskasse AG	Cologne
Member of the Supervisory Board (until 31.12.2011)	Sparkassen PensionsBeratung GmbH i. L.	Cologne
Member of the Supervisory Board (until 31.07.2012)	Deutsche Landesbankenzentrale AG	Berlin
Member of the Administrative Board (until 31.07.2012)	Deka(Swiss) Privatbank AG	Zurich, Switzerland

Dr. h. c. Friedrich Oelrich (Member of the Board of Management)		
Deputy Chairman of the Supervisory Board	Deka Investment GmbH	Frankfurt/Main
Deputy Chairman of the Supervisory Board	ETFlab Investment GmbH	Munich
Deputy Chairman of the Supervisory Board	Deka Immobilien Investment GmbH	Frankfurt/Main
Deputy Chairman of the Supervisory Board	WestInvest Gesellschaft für Investmentfonds mbH	Düsseldorf
Deputy Chairman of the Supervisory Board	SIZ Informatikzentrum der Sparkassenorganisation GmbH	Bonn
Deputy Chairman of the Supervisory Board	Deutsche Landesbankenzentrale AG	Berlin
Member of the Supervisory Board (until 16.05.2012) Member of the Supervisory Board (from18.05.2012)	Deka Immobilien GmbH	Frankfurt/Main
Member of the Supervisory Board	Sparkassen Rating und Risikosysteme GmbH	Berlin
Member of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Member of the Administrative Board	Deka(Swiss) Privatbank AG	Zurich, Switzerland
Member of the Shareholder Committee	Dealis Fund Operations GmbH	Frankfurt/Main
Managing Director	Deka Treuhand Erwerbsgesellschaft mbH	Frankfurt/Main
Member of the Advisory Board (from 26.11.2012)	VÖB-Service GmbH	Bonn

Dr. Georg Stocker (member of the Board of Management from 01.08.2012)		
Member of the Supervisory Board (from 01.08.2012 to 18.09.2012) Deputy Chairman of the Supervisory Board (from 19.09.2012)	Deka Immobilien GmbH	Frankfurt/Main
Member of the Supervisory Board (from 01.08.2012)	Gesellschaft für Mittelstandskreditfonds der Sparkassen-Finanzgruppe mbH	Frankfurt/Main
Member of the Supervisory Board (from 01.01.2013)	S Broker AG & Co. KG	Wiesbaden
Member of the Supervisory Board (from 01.08.2012)	Sparkassen-PensionsManagement GmbH	Cologne
Member of the Supervisory Board (from 01.08.2012)	Sparkassen Pensionsfonds AG	Cologne
Miember of the Supervisory Board (from 01.08.2012)	Sparkassen Pensionskasse AG	Cologne
Member of the Supervisory Board (from 01.08.2012)	Deutsche Landesbankenzentrale AG	Berlin
Member of the Administrative Board (from 01.08.2012)	Deka(Swiss) Privatbank AG	Zurich, Switzerland

Board members of DekaBank Deutsche Girozentrale

45 Notes to the Board members of DekaBank Deutsche Girozentrale (as at 31.01.2013)

Board of Management

Michael Rüdiger
Chairman of the Board of Management (from 01.11.2012)

Oliver Behrens
Deputy Chairman of the Board of Management (from 01.11.2012)
Acting Chairman of the Board of Management (from 02.04.2012 to 31.10.2012)
Member of the Board of Management (until 02.04.2012)

Franz S. Waas
Chairman of the Board of Management (until 02.04.2012)

Dr. Matthias Danne
Member of the Board of Management

Hans-Jürgen Gutenberger
Member of the Board of Management (until 31.07.2012)

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

Dr. Georg Stocker
Member of the Board of Management (from 01.08.2012)

Administrative Board

Heinrich Haasis
Chairman (until 15.05.2012)
President of the German Savings Banks and Giro Association e.V.

Georg Fahrenschon
Chairman (from 16.05.2012)
President of the German Savings Banks and Giro Association e.V.

Helmut Schleweis
First Deputy Chairman
Chairman of the Management Board of Sparkasse Heidelberg

Thomas Mang
Second Deputy Chairman
President of the Savings Banks Association of Lower Saxony

Representatives elected by the Shareholders' Meeting

Michael Breuer
President of the Rhineland Savings Banks and Giro Association

Dr. Johannes Evers
Chairman of the Management Board of Landesbank Berlin AG and President of the Savings Banks Association Berlin

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

Volker Goldmann
Chairman of the Management Board of Sparkasse Bochum

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

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

Walter Kleine
Chairman of the Management Board of Sparkasse Hannover

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

Harald Menzel
Chairman of the Management Board of Sparkasse Mittelsachsen

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

Eugen Schäufele
Chairman of the Management Board of Kreissparkasse Reutlingen

Siegmund Schiminski
Chairman of the Management Board of Sparkasse Bayreuth

Peter Schneider
President of the Savings Banks Association Baden-Württemberg

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

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

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

Alexander Wüerst
Chairman of the Management Board
of Kreissparkasse Köln

Theo Zellner
President of the Savings Banks Association Bavaria

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

Heike Schillo
Sales – Savings Banks South
DekaBank Deutsche Girozentrale

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

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

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, 25 February 2013

DekaBank
Deutsche Girozentrale

The Board of Management

Rüdiger Behrens Dr. Danne

Dr. h. c. Oelrich Dr. Stocker

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the DekaBank Deutsche Girozentrale, Berlin/Frankfurt am Main, for the business year from 1 January to 31 December 2012. The maintenance of the books and records and the preparation of the annual financial statements and the management report in accordance with German commercial law are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and 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 the Company's Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Frankfurt am Main, 26 February 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Roland Rausch	Stefan Palm
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Internet website

The Annual Report 2012 can be found on our website, including as an interactive online version, at www.dekabank.de under “Investor Relations/Reports” in German and English. Previous versions of our annual and interim reports are also available for download here.

Contact

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Group Reporting & Rating Services
Andrej Kroth

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This report was prepared in April 2013

Disclaimer

The management report as well as the Annual Report 2012 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 Group Annual Report is provided for convenience only. The German original is definitive.

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