DekaBank
Deutsche Girozentrale

Annual financial statements 2020

Finanzgruppe

Deka

Content

Management report

At a glance

As the *Wertpapierhaus* for the savings banks, the Deka Group is a key part of the *Sparkassen-Finanzgruppe* (Savings Banks Association). The strategic programme launched in 2018 continued to evolve in 2020. Its aim is to further enhance Deka's position as a customer-focused, innovative and sustainable *Wertpapierhaus* for the savings banks by 2025.

The Deka Group improved net sales by a total of €14.1bn to €32.1bn year-on-year in the 2020 reporting period. The Group increased net sales in the retail customer segment by €1.5bn compared with 2019 to €12.6bn. Fund sales rose from €5.9bn to €8.0bn. Equity funds (€4.7bn) and real estate funds (€2.5bn) accounted for a particularly significant share of this figure. Sales of certificates to retail customers totalled €4.6bn (2019: €5.3bn). With net sales of €19.5bn, the institutional customer segment recorded a strong increase versus the previous year (€6.9bn). The very strong net sales figure of €17.4bn in the institutional fund business (2019: €5.6bn) was also boosted by a change in master KVG by a major client in the master fund segment. Certificate sales to institutional customers came to €2.2bn (2019: €1.3bn).

A very strong net sales performance meant that the Deka Group's total customer assets rose by €25.7bn to €339.2bn (year-end 2019: €313.4bn). The investment performance for the year as a whole was slightly positive. Distributions to fund investors (€3.5bn) and maturing certificates (€3.3bn) offset the upward trend somewhat.

The COVID-19 pandemic and its impacts on the economy, business cycle and capital markets also affected the Deka Group's performance. Deka took swift and extensive action in this difficult environment, promptly adapting its business operations and management processes to events. This allowed the business to remain fully operational at every stage. Employees largely worked remotely from home from March onwards. Deka used early and active risk management to respond to the crisis, both in terms of market and credit risk in the banking business and with a view to fund management of customers' trust assets.

It further stepped up its support for the savings banks and institutional customers and switched to digital formats. Giving good advice in times like these is particularly important, whether face to face or through new technologies. In 2020, the expert advice offered by the savings banks, whether online or in branches, helped both retail and institutional customers to respond calmly to the new situation and continue to invest.

At €269.4m, the economic result was down sharply on the previous year (€434.0m). Given the circumstances, however, profit performance was satisfactory. Income amounted to €1,387.9m (2019: €1,560.6m). The decline of 11.1% was principally due to increased risk provisions for the transport and real estate financing sectors, which were particularly affected by the coronavirus crisis. At €1,118.5m, overall expenses were held virtually stable year-on-year using active cost management (2019: €1,126.7m).

The cost/income ratio was 70.2% (previous year: 69.1%). The return on equity (before tax) was 5.5% (previous year: 9.0%).

The Deka Group's financial position remains sound. DekaBank also has one of the best credit ratings among its peer group of German commercial banks.

At year-end, the Common Equity Tier 1 capital ratio stood at 14.2% (year-end 2019: 14.2%). The risk-bearing capacity analysis showed a utilisation of risk appetite of 70.5% (year-end 2019: 63.9%).

Information about the Deka Group

Deka Group profile and strategy

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

Millions of people in Germany save using investment funds, ETFs and certificates. The Deka Group managed total customer assets of €339.2bn at the reporting date, making it one of the largest providers of these products in Germany. The Deka Group is the securities service provider (the *Wertpapierhaus*) for the savings banks. It brings together banking and fund business under one roof – a winning combination for its customers. Deka has been a reliable partner to investors and institutional partners for over 100 years.

Legal structure

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

The historical development of the Deka Group's predecessor institutions, together with its ownership structure, make it a key part of the *Sparkassen-Finanzgruppe* (Savings Banks Association).

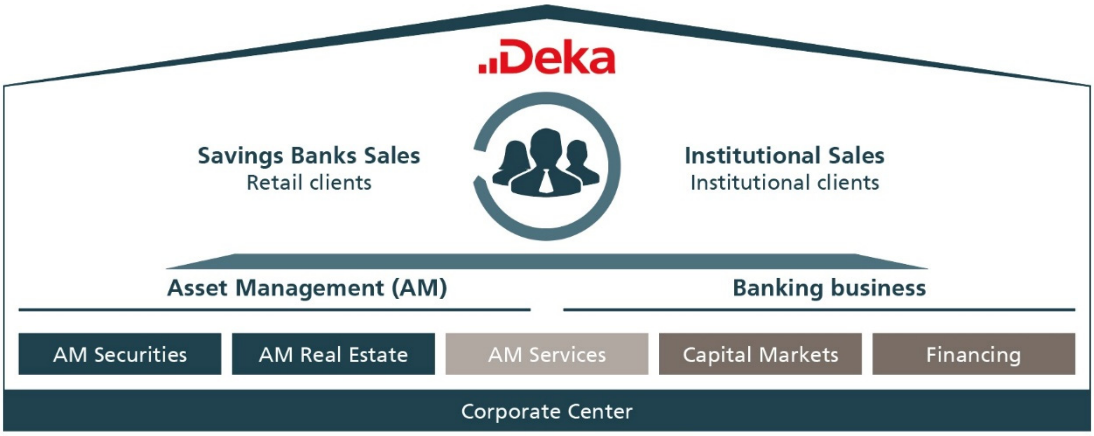
DekaBank is a member of the deposit guarantee scheme of the *Landesbanken* and *Girozentralen*.

Organisational structure

The Deka Group divides its business into five business divisions that bring together similar activities from across different companies. Asset management activities are handled by the Asset Management Securities and Asset Management Real Estate business divisions. The Group's banking business is covered by the Capital Markets and Financing business divisions. The fifth business division – Asset Management Services – provides banking services for asset management.

The sales units Savings Banks Sales and Institutional Customer Sales serve as the interface with sales partners and customers. The corporate centres support the business divisions and sales departments throughout the value chain.

Deka Group – The *Wertpapierhaus* for the savings banks at a glance *(Fig. 1)*



Major companies and locations

The Deka Group's business is managed from the head office in Frankfurt am Main. Frankfurt is also home to the major investment management companies, such as Deka Investment GmbH, Deka Immobilien Investment GmbH, Deka Vermögensmanagement GmbH and the robo-advisor company bevestor GmbH. A further investment management company – WestInvest GmbH – is based in Düsseldorf. S Broker AG & Co KG has its registered office in Wiesbaden, while S-Pensions-Management GmbH (in which DekaBank has a 50% shareholding) is headquartered in Cologne.

The most important international office is in Luxembourg. The Deka Group successfully completed its strategic realignment in Luxembourg in 2020. This involved transferring the business activities of DekaBank Deutsche Girozentrale Luxembourg S.A. to DekaBank Deutsche Girozentrale Niederlassung Luxemburg. DekaBank Deutsche Girozentrale Luxembourg S.A. returned its banking licence in spring 2020. The company has been renamed Deka Verwaltungsgesellschaft Luxembourg S.A. Its primary purpose is to hold equity investments. International Fund Management S.A., Luxembourg, was dissolved on 14 May 2020 following the transfer of its business activities to Deka International S.A. and the Luxembourg branch of Deka Vermögensmanagement GmbH.

The Deka Group is now represented in Luxembourg by DekaBank Deutsche Girozentrale Niederlassung Luxemburg and the investment management companies: Deka International S.A., Deka Immobilien Luxembourg S.A., Deka Vermögensmanagement GmbH (Luxembourg branch) and Deka Verwaltungsgesellschaft Luxembourg S.A.

Deka acquired the Austrian company Fonds-Manufaktur IQAM Invest GmbH with effect from 1 January 2021. In Europe, the fund boutique plays an important role in quantitative fund management by developing its own models. With the purchase, Deka is building on its position as a leading provider of quantitative product solutions and enhancing its outstanding academic expertise in the German-speaking countries.

Corporate management and supervision

Social and political requirements in the interests of good and responsible corporate management and supervision are growing. As an institution incorporated under public law, Deka is not subject to the German Corporate Governance Code. Nevertheless, the Deka Group strictly adheres to the principles of good and responsible corporate governance.

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

DekaBank is managed collectively by the Board of Management. The Board of Management takes a holistic approach, always considering the entirety of the Deka Group and the strategic direction and risks. The Board is divided into divisions, each under the responsibility of a designated member. This ensures a clear distribution of roles and core competencies in the Board of Management.

DekaBank completed its restructuring of the Board of Management in 2020. The long-standing deputy CEO Dr. Georg Stocker took over as CEO on 1 January. With effect from 1 May, Daniel Kapffer took over the role of Chief Financial Officer in addition to his existing responsibilities as Chief Operating Officer. The asset management business divisions were brought together under the remit of Dr. Matthias Danne. In early July, he was also appointed as deputy CEO. Finally, in June, Birgit Dietl-Benzin joined DekaBank as the Chief Risk Officer.

The Board of Management consisted of five members as of the reporting date. The responsibilities of the individual members at the reporting date were as follows:

- CEO & Sales: Dr. Georg Stocker
- Deputy CEO & Asset Management: Dr. Matthias Danne
- Risk (CRO): Birgit Dietl-Benzin
- Finance (CFO) & Operations (COO): Daniel Kapffer
- Banking business: Martin K. Müller

At its meeting on 2 December 2020, the Administrative Board of DekaBank appointed Torsten Knapmeyer as Chief Sales Officer with effect from 1 April 2021. In this role, he will be responsible for both retail and institutional customer sales. Mr Knapmeyer has already been responsible for sales since the beginning of 2020 in the role of executive manager within the remit of the CEO, Dr. Georg Stocker.

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

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

The responsibilities of the boards and committees are assigned by the Bank's statues. The Administrative Board has adopted rules of procedure and also has a separate fit & proper policy, guidelines on the handling of conflicts of interest, independence and the induction and training of new members. There are additional rules of procedure for the Board of Management and for the specialist advisory boards and sales committees.

Supervision of DekaBank is exercised by the Federal Minister of Finance.

Sustainable governance and non-financial statement

In 2015, the international community reached two ground-breaking agreements on how to deal with the challenges of climate change and sustainable development: the 2030 Agenda, which includes 17 Sustainable Development Goals (SDGs), and the Paris climate targets. Policymakers and society at large see an increasingly important role for the financial sector in achieving the objectives of these agreements. By actively advising its customers and funding a transition to a climate-friendly, resource-efficient and fair way of doing business, the sector should make a substantial contribution to achieving the global goals. This includes offering corresponding investment products.

Since the signing of the Paris Agreement, legislators and regulators have significantly stepped up their efforts to incorporate climate and sustainability criteria into the financial market. This affects banks in two ways: directly, in the form of rules that concern their business activities, product range and risk management, and indirectly, by influencing customer behaviour in the financing and investment business.

The Deka Group's positioning on sustainability issues, which it has been continuously strengthening since 2009, is gaining further momentum for the future. On 4 September 2020, the conference of the chairmen of the regional savings banks associations adopted the 2025 vision – a set of binding guidelines on sustainability issues for the institutions of the *Sparkassen-Finanzgruppe*. The first concrete outcome of this is a voluntary commitment by the German savings banks to climate-friendly and sustainable business practices. This was adopted on 28 September 2020 by the full Board of Management of the German Savings Bank and Giro Association (*Deutscher Sparkassen- und Giroverband* – DSGV).

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

See also: www.deka.de/deka-group/our-responsibility/how-we-practice-sustainability/sustainability-reports-and-ratings

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

The Deka Group continues to be rated as "very good" by sustainability rating agencies. In the reporting year, it received another "AA" rating from MSCI ESG, for example. The ISS ESG rating agency confirmed the Deka Group's C+ Prime "Industry Leader" rating in 2020. Sustainalytics rated Deka as with a score of 17.8 – "low risk". imug rating has discontinued its bond sonar rating.

Business model as the *Wertpapierhaus* for the savings banks

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

The Deka Group sees itself as an all-round solution provider, meeting the needs of savings banks and their customers. This philosophy drives the development of its complete range of asset management and banking services to meet the securities business needs of savings banks and their customers and the targeted sales support it provides as a partner.

The Group's business model is tailored to Deka's role as a *Wertpapierhaus* and takes the form of an integrated model combining asset management and banking business, ensuring stability and competitiveness.

All business divisions aim their products and services at the needs of savings banks and their customers and at the interests of the institutional investors acquired and served in partnership with the savings banks.

- The Asset Management Securities and Asset Management Real Estate business divisions focus particularly on fund-based products and services.
- As a banking division, Asset Management Services encompasses banking services for asset management, such as the depositary and custody account business for Deka customers at the savings banks as well as digital multichannel management.
- The banking business divisions – Capital Markets and Financing – and the Treasury corporate centre support the integrated model by offering alternative investment products and enabling the necessary access to the money and capital markets and to financing. Capital Markets also acts as a service provider for asset management.

In business involving securities funds and real estate funds, the Deka Group primarily earns commission income from management and transaction fees. Subject to regulatory requirements, some of this income is passed on as payments to the alliance partners to the savings banks in their capacity as sales partners. Additional commission income is generated from banking transactions, including capital market activities. Interest income is obtained primarily from specialised financing and real estate finance, as well as from securities in the banking book.

Customers

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

Product and solution provider

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

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

Sales and all-round advice

The Deka Group's services are generally sold by Savings Banks Sales and Institutional Customer Sales.

Deka takes an all-round approach to helping savings banks sell asset management products and services. An example of this is the close support given to the investment and advisory process within the savings banks. This includes incorporating the product and service offering into customer advice, joint customer-focused activities and in-depth support for savings banks and local advisers. The Deka Group's sales support is fully aligned with the *Sparkassen-Finanzkonzept* – the financial planning strategy offered by the savings banks – and aims to support the savings banks throughout the investment and advisory process.

Positioning and role within the *Sparkassen-Finanzgruppe*

Deka is a key part of the *Sparkassen-Finanzgruppe* with a stable business model as the *Wertpapierhaus* of the savings banks.

The market position Deka has achieved is being challenged by market and customer trends. Today, we need to respond faster and more accurately to changes in customer requirements and do our utmost to anticipate them. In addition, the Deka Group also needs to address changing markets: negative interest rates, growing competition and pressure on margins, digitalisation, regulatory requirements and greater awareness of sustainability call for smart, innovative and sustainable solutions. A successful response is only possible if every part of the Deka Group is geared towards customer utility and fully exploits the strengths of its employees.

Between now and 2025, the Deka Group will therefore further reinforce its position as the *Wertpapierhaus* for the savings banks with an increased focus on four strategic thrusts: customer orientation, digitalisation, innovation and sustainability:

- Digitalisation and targeted innovation: Deka's aim is to drive innovations in business areas that benefit the savings banks in order to provide building blocks for greater customer utility.
- Sustainability will be a cornerstone of Deka's business model in future. The Deka Group recognises the importance of this issue for society and the planet and also sees an opportunity here for growth and future profitability.
- The Deka Group is convinced that it already has the talent it needs to shape the successful evolution of its business model. Systematic professional development for employees will therefore be an important part of driving ahead with its strategic ambitions for 2025.
- To enable it to respond more quickly and flexibly to the changing requirements of customers and markets, the Deka Group will evolve as a modern and versatile organisation with efficient, customer-oriented processes.

Management Agenda 2025, by action area *(Fig. 2)*

Based on the four key thrusts set out above, the Management Agenda 2025 sets the direction for the Deka Group's strategic and operational focus in the coming years. The Management Agenda was launched in 2020 and is comprised of five action areas.

The existing DekaPro programme has been absorbed into the new Management Agenda. This includes the strategic cost initiative launched as part of DekaPro, which concentrates on a lasting reduction in personnel and operating expenses. Creating new benefits and focusing on customers are the key factors in successfully implementing the Management Agenda 2025.

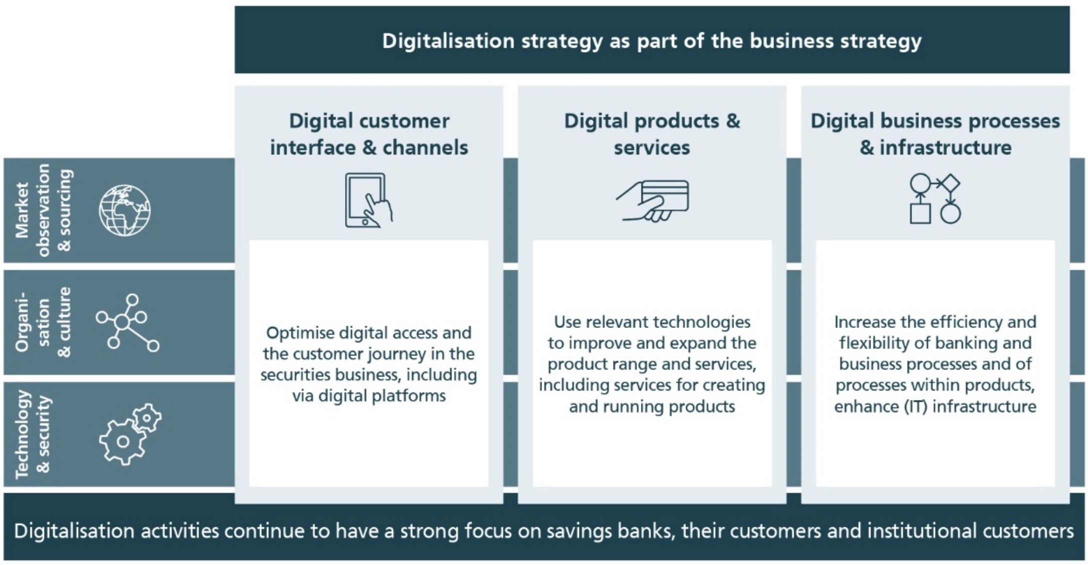
Digitalisation strategy at the Deka Group

This strategy provides a framework for digitalisation, ensuring that the business model continues to evolve in a customer-oriented manner, that business processes and infrastructure continue to improve and that the organisation and its employees have opportunities for further development.

The potential solutions arising from digitalisation are exploited all along the value chain, beginning with the customer interface, and are reflected at every level of the Deka Group. Another major focus is on digitalising products and developing digital assets.

For the digitalisation strategy, which forms part of the business strategy, the Deka Group has defined three key activities with the following strategic thrusts.

Key digitalisation activities at a glance *(Fig. 3)*



Business divisions, sales units and corporate centres

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

Asset Management Securities business division

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

The product range comprises:

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

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

To meet customer demand for more sustainable investments, the Asset Management Securities business division is gradually expanding its existing product and service range and taking greater account of sustainability aspects in fund and investment processes. With the product range for sustainable securities investments, the aim is to play an important role among German asset managers and to be the leading asset manager within the savings bank association.

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

Asset Management Real Estate business division

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

The product range comprises:

- open-ended real estate mutual funds,
- open-ended and closed-ended special funds,
- real estate funds of funds,
- credit funds that invest in real estate, infrastructure or transport financing,
- residential property funds offered together with experienced external partners.

Fund products are subject to appropriate cash flow management for the purpose of lasting risk avoidance.

The division's services comprise the purchase, sale and management of real estate and all other real estate services, as well as the growth-oriented development of marketable commercial properties in liquid markets, and active portfolio and risk management. As part of the *Deka Immobilien-Kompass* initiative, the division offers savings banks and other institutional investors an extensive modular service package aimed at real estate fund investment, positioning itself as a strategic partner to institutional investors.

In order to fully address environmental and social aspects and meet investors' expectations, the Asset Management Real Estate business division also takes sustainability aspects into account in fund and investment processes. It achieves this through an integrated approach incorporating the producer, production and product level.

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

Asset Management Services business division

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

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

Testing innovative solutions, ideas and trends in the securities business, such as the use of artificial intelligence and data analytics, will remain an important part of the subdivision's activities in future. Digital Multichannel Management's objective is to provide the savings banks with the best possible support in maintaining an appealing and ever-improving digital customer interface. Innovative online solutions will be used to attract new customers and maintain customer loyalty. Seamless, multichannel integration of branch and online sales for the securities business is at the heart of this.

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

The Depositary subdivision is aiming to improve its competitive position even further and to continue to grow its business involving mutual and special funds, third-party mandates and investment managers.

Capital Markets business division

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

With its tailored range of services relating to securities repurchase transactions, securities lending and foreign exchange trading, the business division provides the central securities and collateral platform for the savings bank association. In addition to its function as a commission agent for all relevant asset classes, it serves as a centre of competence for trading and structuring capital market products as well as for DekaBank's certificate issues. Institutional customers are provided with clearing services and support with the efficient fulfilment of regulatory requirements. Until the end of 2020, the division was also responsible for the Deka Group's Strategic Investments portfolio. This comprises the securities in the proprietary portfolio that are not held for liquidity management purposes, but rather to invest surplus refinancing funds and, in doing so, to balance out a varied maturity structure. Starting in 2021, the Strategic Investments portfolio is managed in the Treasury corporate centre.

The business division is pursuing ongoing digitalisation initiatives to increase customer utility and efficiency. The main product is the Deka Easy Access (DEA) platform, which helps savings banks to manage their proprietary portfolios effectively. DEA allows the savings banks to trade popular capital market products and offers broad access to information and research. As of the end of 2020, 279 savings banks already use the tool. Together with other market participants, the business division launched the finledger platform in 2019 for processing digital promissory note loans with the help of distributed ledger technology (DLT). In 2020, the first partner not involved in the finledger project issued a promissory note loan via the platform. DLT was also the basis for the development of the Digital Collateral Protocol (DCP). This is a distributed settlement system suited to traditional securities but also digital assets, commercial bank money and central bank digital currency. It enables transfers between national and international custodians. The DCP has been available for lending transactions since November 2020. By the end of the year, it had already handled securities movements between DekaBank and a third customer.

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

- The Collateral Trading & Currency subdivision brings together securities lending products, securities repurchase transactions and customer-oriented currency trading.
- The Trading & Structuring subdivision is the Deka Group's centre of competence for trading and structuring capital market products (cash instruments, bonds and shares), for derivatives in all asset classes and for the certificates issuing business. Until the end of 2020, it also included the Strategic Investments portfolio.
- The Commission Business subdivision executes trades in securities and exchange-traded derivatives in its own name on behalf of third parties. These services can be used by business partners inside and outside the *Sparkassen-Finanzgruppe*.

As a product, solution and infrastructure provider, the Capital Markets business division provides savings banks and institutional customers with access to capital markets and (central) counterparties. Customers benefit from synergy effects and economies of scale. The business division is responding to regulatory requirements by optimising the business portfolio on an ongoing basis and by efficiently managing regulatory capital requirements. In terms of activities, the business division's range of services is set to be expanded by the increased use of DEA.

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

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

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

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

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

The Financing business division is aiming its new business activities at defined core segments, a broader product offering in existing asset classes and maintaining the regional spread of Deka's financing business. It also aims to strengthen Deka's position in liquid markets and as a sought-after financing partner for the most important international real estate investors. In addition, DekaBank continues to act as a dependable refinancing partner for the savings banks.

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

There is a clear division of tasks in market cultivation: The savings banks have sole responsibility for directly contacting, advising and serving retail customers. The Deka Group provides them with the products and services they need to do so. To accompany Deka's marketing activities, the savings banks receive an all-round marketing package. Deka therefore also aims its offering directly at end customers so as to nurture their active demand for savings banks' services. Sales Management & Marketing and Private Banking & Product Management systematically analyse the needs of customers and savings banks as well as competitor and market developments. Based on their findings, they develop forward-looking measures to support sales and marketing at the savings banks. Retail and business customers access the Deka Group's products and services through the savings banks. The product universe encompasses all funds, certificates, asset management solutions, private and company pension solutions, and private banking services throughout the product lifecycle. Among other things, Private Banking offers solutions and services for asset optimisation, generation management, protection against life's risks, pensions and sustainable investment.

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

The Deka *Wertpapierbaukasten* established in early 2019 was expanded in 2020. This modular securities concept is a web-based application that helps sales directors to better support the savings banks, allowing the banks to efficiently expand their securities business in a way that makes full use of their potential. Since 2020, savings banks have been able to independently run their own multi-year planning simulations in the *Wertpapierbaukasten*. This planning tool offers additional transparency in relation to segment planning as well as earnings, portfolio and sales structures. This means that a savings bank can not only check that its targets are plausible but adjust them too – another step forward for digital support.

The COVID-19 pandemic has made it even more important to expand online securities business and provide a complete online securities trading process so that customers never have to switch to an alternative communication channel. Responding to the new situation, Deka worked with DSGV ö.K. to speed up the provision of online access for customers through DSGV's online banking customer initiative. Established communication formats were also adapted to the increased demand. This included providing content modules on the economic situation in the "internet branch" and savings banks app. These were updated daily or several times a week. Deka also ran TV adverts and published a newsletter on up-to-date topics. It supplemented these with resources for dialogue marketing and direct marketing, which the savings banks could use to communicate with their customers during the crisis. In addition, end customers could access new formats such as Deka webcasts and podcasts. The S-Invest app brought together all our investment services in a single place and expanded our mobile offering for customers.

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

Institutional Customer Sales

The Institutional Customer Sales unit supports the savings banks with proprietary business and serves institutional investors in Germany and, in a number of cases, abroad. Customer advisers are responsible for the overall relationship with institutional customers and adopt a comprehensive approach that covers all products and services offered by the Deka Group across all business divisions. In addition, Deka provides institutional customers with important functions such as reporting and order placement through online channels. The focus is generally on tapping additional sales and earnings potential as well as offering new products and services and implementing regulatory requirements as necessary, Sustainability, in particular, is an important topic when advising and supporting customers.

In our business with savings banks, the Institutional Customer Sales team is available as a management partner and adviser. It develops immediately viable solutions for proprietary business (*Depot A*) and overall bank management. This includes methods and applications for interest rate book management and asset allocation. The solutions are built on comprehensive analyses of the earnings and risk situation. Support for savings banks and financial institutions is divided into two sales regions. A separate team looks after the largest savings banks and financial institutions with special requirements. Employees in the Strategic Proprietary Business & Asset Liability Management team develop methods and applications for interest rate book management and asset allocation for institutional customers – primarily savings banks – and advise them on these topics. There are also dedicated teams for the ETF sales business, the sale of bonds and structured products and direct business with asset managers. These teams work across customer groups.

For the business with institutional investors in Germany, there are three teams, each responsible for a different customer group: insurance companies (investors subject to the German Insurance Supervision Act (*Versicherungsaufsichtsgesetz* – VAG)), public sector/non-profit organisations and corporates & family offices. This specialisation enables Institutional Customer Sales to incorporate the Deka Group's expertise into investment solutions in a way that meets the needs of investors in each target group. The Client Analytics & Solutions team develops methods and solutions for customer-specific analysis of ideal investment opportunities, manages relationships with consultants and handles requests for proposal.

The Deka Group brings together all its solution expertise for institutional customers under the Deka Institutionell brand, reinforcing its clear focus on the needs of the institutional target group.

Corporate Centres

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

Influencing factors and market position

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

With fund assets (according to the BVI, the German Investment Funds Association, as at 31 December 2020) of €134.3bn and a market share of 12.6%, Deka is the fourth-largest provider of mutual securities funds in Germany. It is Germany's second-placed provider of mutual property funds with fund assets (according to the BVI, as at 31 December 2020) of €36.2bn and a market share of 30.8%.

In the Capital-Fonds-Kompass 2020 awards organised by the business magazine Capital, the fund analysis firm Scope and Tetralog Systems Analysis, Deka Investment GmbH secured a five-star rating for the eighth time in a row.

In autumn 2020, the rating agency Telos conducted over 250 conversations to rate the satisfaction of institutional investors in asset managers and master KVGs. Among large managers, Deka Investment GmbH took the top spot in two categories: for reporting and master KVGs over five years. In the new category measuring expertise in sustainability/ESG, Deka went straight to third place.

At the 2020 Scope Alternative Investment Awards in late November 2020, Deka Immobilien Investment GmbH was again honoured as Best Asset Manager in the Retail Real Estate Europe category.

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

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

The Deka Group's certificates are sold through the German savings banks. Deka has confirmed its very good position as an issuer of structured products in Germany, with a 23.4% market share at year-end 2020.

The Scope Zertifikate Awards 2021 were presented in Frankfurt in late November 2020. For the fifth time in a row, DekaBank was recognised as the best certificate issuer in the primary market. DekaBank was also voted best certificate issuer of 2020/2021 by the magazine "Der ZertifikateBerater" together with n-tv, Börse Frankfurt Zertifikate and the Stuttgart Stock Exchange. Deka again won the public vote as "Certificate Issuer of the Year". The expert jury put Deka in first place in the express certificates and capital protection certificates categories.

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

In autumn 2020, the F.A.Z.-Institut and the IMWF (Institute for Management and Economic Research) jointly examined a range of German companies in relation to their environmental protection activities. The study was based on the companies' corporate social responsibility (CSR) reports and sustainability reputation. DekaBank achieved the maximum 100 points in the fund companies category, putting it in first place.

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

See also: Economic report: page 18 ff.

Risk and profit management at the Deka Group

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

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

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

Financial performance indicators

The financial performance indicators relate to the Deka Group's earnings position, capital adequacy and liquidity adequacy.

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

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

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

See also: Capital adequacy: page 65 ff.

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

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

See also: Liquidity adequacy: page 69 ff.

Non-financial performance indicators

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

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

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

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

See also: Business development and profit performance in the Deka Group: page 24 ff.

Economic report

Economic environment

Macroeconomic conditions

The COVID-19 pandemic hit economies all around the world in spring 2020. Economic activity declined very sharply in many countries as a result of lockdown measures. For the year as a whole, global gross domestic product was down 3.6% on 2019. The downturn triggered an immediate response from governments and central banks in the form of stimulus measures. From a global perspective, the economic situation improved significantly again in the third quarter thanks to increased production and household spending. However, as autumn and winter arrived in the northern hemisphere, a second wave of coronavirus infections took hold in many countries. Governments particularly in Europe responded with new lockdown measures, prompting renewed declines in gross domestic product in the region.

In the eurozone, the inflation rate for 2020 remained at a very low level, with the coronavirus pandemic having a dampening effect. By April, the price of crude oil had fallen by over two-thirds since start of the year. Although oil prices subsequently recouped some of their losses, energy commodities continued to exert downward pressure on inflation until year-end. Food price inflation, by contrast, temporarily outpaced even the previous year for a time before dropping back to normal levels in the second half of the year. Products hit particularly hard by coronavirus lockdown rules, such as flight tickets, hotel stays and package holidays, saw exceptional price reductions worldwide. After historically low unemployment rates at the end of 2019, the coronavirus caused a jump in underemployment in the spring of 2020. In Germany and other countries, the pandemic's impact on the labour market was mitigated by the use of short-time working, the German equivalent of furlough. Combined with underused capacity, this generally resulted in lower than expected wage growth. Despite expansionary monetary and fiscal policy, the central banks largely fell short of their inflation targets.

The pandemic's impact on inflation and economic growth presented particular challenges for central banks. Extreme risk aversion and a flight to high-quality assets sucked liquidity out of the financial markets and threatened to trigger a self-reinforcing downward spiral with spillover effects between the real and financial economy. A majority of central bank measures in the first half of the year were therefore aimed at maintaining lending in the real economy. The US Federal Reserve (Fed) concentrated on asset purchases, while efforts were also made in the eurozone to ensure banks had access to very cheap central bank liquidity. The Pandemic Emergency Purchase Programme (PEPP), launched by the European Central Bank (ECB) in March 2020, initially served principally to stabilise financial markets. As the flight to high-quality assets was accompanied by substantial financial flows between eurozone member countries, market liquidity threatened to decline sharply in some parts of the single currency area. To ensure its monetary policy continued to reach every corner of the eurozone, the ECB needed this new tool to flexibly adjust its asset purchases on a large scale across member states and asset classes.

With financial markets stabilising later in the year, the focus of monetary policy shifted towards stimulating economic recovery with extremely favourable financing conditions. In June and December 2020, the ECB therefore scaled up and extended the duration of the PEPP programme. The Fed continued its sovereign bond purchases.

Economic environment for asset management

Stock markets in industrialised countries continued their upward trend in the early weeks of 2020. Germany's stock market index – the DAX – and a number of other share indices hit new historic highs. On the bond markets, spreads largely remained at very low levels. Most investors in early 2020 regarded the coronavirus as a regional phenomenon likely to affect only China and some of its neighbouring countries. When this assumption proved incorrect and the virus spread rapidly all around the world, the financial markets plummeted. Capital market participants anticipated a severe recession and rising insolvencies. This triggered significant falls in prices for shares and corporate bonds. Spreads on higher-risk corporate bonds, for instance in emerging markets and the eurozone periphery, widened dramatically. Meanwhile, low-risk sovereign bonds benefited from the flight to quality. Bund yields marked new historic lows across the maturity spectrum in March 2020. However, this was short-lived. A combination of illiquid markets and the prospect of a sharp rise in government borrowing soon drove yields higher again.

As spring progressed, the situation on financial markets gradually stabilised. Governments implemented a host of measures to avert corporate insolvencies. At the same time, extensive bond purchases by central banks improved market liquidity and provided a counterweight to the growing need for bond issues on the part of governments and corporates. The pandemic also led to increased fiscal risk-sharing between European Union (EU) member states, initially through established institutions such as the European Investment Bank (EIB) and European Stability Mechanism (ESM). This was followed by an expanded EU budget with an extensive recovery fund. The stabilisation of financial markets was driven by investors' confidence that the EU would provide substantial support to financially weaker member states, but also by the rapid recovery of growth in summer 2020. The latter showed the potential for demand to rebound quickly in the event of lockdown easing. Combined with the prospect of an available vaccine, this boosted confidence in a V-shaped recovery. The second wave of the pandemic, which hit Europe particularly hard in the autumn, therefore had a relatively minor impact on the markets for riskier assets. It reinforced investors' expectations that the ECB would stick to a very expansionary monetary policy for a long time to come, which led Bund yields to trend further downwards at the end of the year.

Real estate funds continued to offer an attractive risk/reward ratio in the low interest rate environment. Given high real estate prices and limited availability of suitable properties, however, the investment opportunities open to real estate funds remained limited. This restricted their ability to attract new investor funds, particularly given that it was not possible to generate positive margins from liquidity investments. The real estate markets did not escape the consequences of the COVID-19 pandemic. While low vacancy rates have enabled markets for office space to weather the crisis relatively well, with only isolated rent reductions, retail and hotels took a greater hit from the impacts of the pandemic, such as temporary shop closures, the cancellation of large events and travel restrictions. The logistics market, by contrast, benefited from the growing trend towards online shopping and increased demand for space, which was needed to safeguard supply chains. Delays, renegotiations and cancellations of planned transactions were commonplace on the investment market. The global transaction volume in 2020 was down by around a third on the previous year's level.

Private household wealth in Germany increased in 2020. Households increased their financial assets to €6,738bn (30 September 2020), up €234bn from the end of 2019, due to high new inflows and growth in value. The high level of uncertainty due to the coronavirus pandemic continued to drive households towards liquid assets such as currency and deposits. Investments in equities and investment funds also contributed to increased wealth. Compared against year-end 2019, the share of these investments in the total financial assets of private households remained steady at 21%.

The market performance seen in 2020 was also reflected in the investment statistics of the German Investment Funds Association BVI. Net assets in open-ended mutual funds amounted to €1,179.9bn as at 31 December 2020 (year-end 2019: €1,113.6bn), while the net assets of open-ended special funds stood at €1,998.0bn (year-end 2019: €1,873.7bn). At €43., n3et inflows into open-ended mutual funds significantly exceeded the previous year's figure (€17.5bn). Equity funds, mixed funds and real estate funds made a particular contribution to this increase. At €79.7bn, the sales figure for open-ended special funds for institutional investors was significantly down on the comparative figure for the previous year (€100.3bn).

Economic environment for the banking business

Money market rates in many currency areas increased in March and April 2020. Alongside the reduced market liquidity due to the pandemic, a contributing factor is likely to have been the issue of money market securities by governments and corporates to cover their additional financing needs. Money market tensions eased as the year progressed given the extensive measures by central banks. The ECB, for example, increased surplus reserves in the banking system not only with its bond purchases but also through refinancing operations on very attractive terms and an expansion of the list of assets eligible as central bank collateral. Towards the end of the year, EURIBOR rates hit new historic lows, reflecting both the expansionary monetary policy and the increased importance of non-banks in the money market.

To improve their difficult liquidity position resulting from a lack of cash flow, companies worldwide conducted an unusually high volume of new issues in the first half of 2020. These new issues featured attractive premiums and therefore met with very high demand from investors. Although the ECB's enormous purchase programmes supported the bond market, the high volume of new issues initially also meant that risk premiums on existing bonds at mid-year remained at a high level compared with the start of January. Corporate bonds and covered bonds continued to recover from the sharp spread widening until the end of the year, as the ECB's measures provided strong support to this market too. The secondary market for covered bonds became increasingly illiquid as banks placed the majority of their new issues as collateral at the ECB as part of the targeted longer-term refinancing operations (TLTRO) III tender. As a result, spreads on corporate bonds and covered bonds ended the year roughly at the level they started it.

The significant fall in economic growth and the expansionary monetary policy of central banks during the pandemic have continued to hit the capital markets business. The margins achievable on the market in the Commission Business unit came under pressure as expected, while the high market volatility, particularly at the start of the pandemic, led to a slightly increased volume overall. Sales of structured issues and the third-party issues business both developed positively in 2020.

The COVID-19 pandemic dominated market activity in the financing business in 2020. While competitive pressure on margins for popular low-risk assets continued across all asset classes at the start of the year, the pandemic caused a significant fall in business activity beginning in early March, especially in transport financing. The number of business opportunities in the real estate financing business fell sharply in 2020 as the pandemic led to a dramatic fall in investment volume and in the number of real estate transactions financed by DekaBank. A lack of liquidity in the banking market in some regions meant that terms and conditions were stable, however.

Regulatory environment

Changes to regulations, both those already initiated and those in the pipeline, once again influenced the business model and profitability of the Deka Group during the 2020 financial year. Higher capital requirements for banks could emerge from supervisory interpretations of existing legal standards and from the results of the annual Supervisory Review and Evaluation Process (SREP), for example in the context of the supervisory review of the internal models under Pillar 1 of the Basel capital framework.

Implementing the regulations described, which comprise the key regulatory issues for the Deka Group, makes major demands in terms of costs and resources.

Regulatory topics

Supervisory authorities and regulators enacted numerous, in some cases temporary, relief measures in light of the coronavirus crisis. The measures described below are of potential significance to DekaBank:

DekaBank applied the following relief measures:

- The ECB has temporarily reduced its capital requirements for market price risk in connection with market volatility.
- The Federal Financial Supervisory Authority (BaFin) has announced a reduction in the countercyclical capital buffer to 0%. The increase to 0.25% that had been planned for July 2020 therefore does not apply.
- The ECB brought forward a change originally planned for the end of 2020 to allow capital other than Common Equity Tier 1 (CET 1) capital to contribute to meeting P2R (the Pillar 2 Requirement). Banks can make long-term use of this change provided they have sufficient Additional Tier 1 (AT1) capital and Tier 2 (T2) capital.
- Among other measures, the European Banking Authority (EBA) permitted lower capital deductions for the prudent valuation of items measured at fair value. This applied until the end of 2020.

DekaBank did not apply the following relief measures:

- The ECB has permitted the institutions under its supervision to temporarily operate below the capital level defined by the capital conservation buffer, the P2G (Pillar 2 Guidance) and the LCR. DekaBank has not adjusted its relevant internal thresholds for capital and liquidity management.
- The Capital Requirements Regulation (CRR) has been amended in European law (CRR quick fix). This allows banks to temporarily adjust their regulatory capital for the effects of increased risk provisioning. Other relief measures relate to the measurement of unrealised losses on banks' holdings of public debt and to the capital deduction for capitalised software. The measures in the CRR quick fix do not currently offer significant relief for DekaBank.

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

In October 2020, the European Banking Authority (EBA) issued an opinion on the treatment of capital instruments that are no longer eligible as own funds from 2022 onwards ("legacy instruments"). The grandfathering period provided by the CRR will expire at the end of 2021. The opinion holds that legacy instruments have the potential to infect other (non-legacy) capital instruments to the extent of disqualifying them. This may be the case if the legacy instruments have certain detrimental features (e.g. equal ranking with the non-legacy capital instrument). At DekaBank, this could apply to atypical silent capital contributions, which might infect the subscribed capital (as a CET1 instrument) including the capital reserve. In DekaBank's view, however, this is not a reasonable interpretation, at least not if – as in DekaBank's case – the investors in the capital instrument and the legacy instrument are one and the same. Nevertheless, DekaBank is currently working on various options to avoid potential infection.

The Fundamental Review of the Trading Book (FRTB) contains amended provisions on the calculation of market risk. On 14 January 2019, the Basel Committee published the final standard with slightly reduced risk weightings in the standardised approach compared with under the 2016 Basel standard. The provisions of the final standard tend to reduce the increase in risk-weighted assets (RWAs) overall. The European Commission adopted the final Delegated Regulation in mid-December 2019 and thereby partially integrated the changes to the standardised approach under the 2019 Basel standard into CRR II. Further implementation of the requirements will involve regulatory standards and EBA guidance. The beginning of the reporting obligation for the FRTB standardised approach has been postponed until September 2021. The new capital requirements at EU level will only apply from a later date.

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

The provisions of the Basel III regulations finalised in December 2017 (also known as Basel IV), which contain, among other things, rules on the output floor and Credit Risk Standardised Approach (CRSA), are not included in CRR II. The Basel Committee had planned initial application on 1 January 2022 but has now postponed this until 1 January 2023. More specifically, the gradual introduction of an output floor is planned. This will stand at 50% upon introduction at the beginning of 2023 and increase to its final level of 72.5% in 2028. The output floor will limit the benefit of internal models as compared to the standardised approach. Deka currently uses the IRB approach for the majority of its lending. It will therefore be particularly affected by the new output floor rules, which may lead to a significant rise in RWAs going forward. In addition, new rules have been agreed on calculating RWAs for CVA risk and operational risk, which are also to be applied starting in 2023. These may also increase RWAs. Draft legislation for implementation at EU level is not yet available.

The entry into force of the Single Resolution Mechanism Regulation (SRMR II) in December 2020 changed the minimum requirements on holding own funds and eligible liabilities for the purposes of loss absorption and recapitalisation in the event the Bank is wound up (Minimum Requirement for Eligible Liabilities – MREL). The balance sheet-based approach previously used will switch to an RWA- and leverage exposure-based calculation method. As the Single Supervisory Mechanism (SSM) applies to the Deka Group, DekaBank again worked on a resolution plan for the Deka Group during the reporting year, which will form the basis for determining MREL. The resolution authority sets the requirements applicable to the Deka Group and will notify them to the Deka Group based on the new calculation method.

A further stress test by the European Banking Authority (EBA) is planned for 2021, which, as in 2018, will cover all risk types. The 2020 stress test was postponed due to the coronavirus pandemic. Publication of the results is scheduled for July 2021. DekaBank is not among the banks taking part in the EBA stress test. As a bank subject to ECB supervision, however, it will be subjected to a stress test by the ECB in 2021 which will be carried out in accordance with EBA methodology. The results of the ECB stress test feed into the calculation of the Supervisory Review and Evaluation Process (SREP) ratios.

In March 2018, the ECB published an Addendum to the ECB Guidance to banks on non-performing loans. This detailed its expectations regarding the level of prudential provisioning for all loans classified as non-performing exposures (NPEs) for the first time after 1 April 2018. As part of the annual supervisory dialogue, the ECB examines any divergences between supervisory expectations and the risk provisions actually recognised by the Bank. In the event of a shortfall in cover, the banks are required either to make a deduction from their Common Equity Tier 1 capital on their own initiative or to provide the supervisory authorities with adequate justification of their divergence from the prudential provisioning expectations. If the ECB does not accept the justification, this could result in higher capital requirements. The amendment to the CRR concerning the minimum loss cover for non-performing exposures was published in the EU Official Journal on 25 April 2019, thereby entering into force. This provides for a mandatory deduction from the Common Equity Tier 1 capital if the actual risk provisions set up by the institutions fall short of the regulatory minimum requirements for the level of risk provisioning. In August 2019, the ECB then revised the Addendum to the ECB Guidance to banks on non-performing loans in respect of the minimum coverage ratios and timescales for achieving these minimum coverage ratios. It also limited the scope to NPEs not regulated by the CRR. With the amendments to the CRR (CRR quick fix) that entered into force on 27 June 2020 to mitigate the impact of the COVID-19 pandemic on banks, preferential treatment for publicly guaranteed NPEs is permitted in terms of the minimum loss coverage, which does not need to be reached until the eighth year after classification as an NPE.

In October 2017, the Basel Committee published guidelines on identification and measurement of step-in risk. Here, the Basel Committee defined general expectations for dealing with these risks, which were to be implemented by 2020. However, they have not yet been codified into European law. As planned, the Deka Group conducted an initial identification and evaluation process in 2020 in respect of potential applications.

Following the publication of the Guidance Notice on Dealing with Sustainability Risks by the Federal Financial Supervisory Authority (BaFin) in December 2019, the ECB published its own expectations for the handling of climate-related and environmental risk in spring 2020. Both institutions require banks, as part of their risk management, to systematically engage with sustainability risks, particularly in relation to the climate and environment. The Deka Group laid important foundations here in the reporting year.

Reorienting capital from private and institutional investors towards sustainable investment, as one of the main goals of the EU Action Plan for Financing Sustainable Growth, can only be achieved if these investors are offered attractive investment products that meet high sustainability standards. This is particularly the case where private investors are concerned. In future, banks will be required, during the consultation, to actively ask these investors about their preferences in relation to sustainable investment. With this in mind, the Deka Group once again significantly expanded its range of sustainable investment opportunities in the reporting year, making a major contribution to the large selection of funds, ETFs and other investments that advisers in the savings banks can offer their customers. Since 2020, companies with a substantial involvement in coal extraction and coal-based electricity generation have been excluded not only from the sustainability funds but from all actively managed mutual funds and proprietary investment activities.

Product- and service-related regulatory proposals

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

Business development and profit performance in the Deka Group

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

The coronavirus pandemic and its impacts on the economy, business cycle and capital markets also affected the Deka Group's performance. Deka took swift and extensive action in this difficult environment, promptly adapting its business operations and management processes to events.

The crisis team worked with the departments to analyse the situation on a daily basis at the height of the crisis, looking at key operational processes and formulating cross-divisional measures. Deka remained fully operational at every stage. Employees largely worked remotely from home from March onwards. The frequency and scope of reporting to the Board of Management on business development, profit performance, operational management and key business processes were temporarily increased. Meetings of the Board of Management and senior management committees took place more frequently in the early stages of the crisis in order to assess the situation and initiate management measures. Deka used early and active risk management to respond to the crisis, both in terms of market and credit risk in the banking business and with a view to fund management of customers' trust assets.

It further stepped up its support for the savings banks and institutional customers during the crisis and switched to digital formats. Giving good advice in times like these has been particularly important, whether face to face or through new technologies. In 2020, the expert advice offered by the savings banks, whether online or in branches, helped both retail and institutional customers to respond calmly to the new situation and continue to invest.

At €269.4m, the economic result was down sharply on the previous year (€434.0m). Given the circumstances, however, profit performance was satisfactory.

Income amounted to €1,387.9m (2019: €1,560.6m). The decline of 11.1% was principally due to increased risk provisions for the transport and real estate financing sectors, which were particularly affected by the COVID-19 crisis. Without risk provisions, income was almost unchanged from the previous year. Net commission income, as a major sustainable income component, was slightly down on the previous year due to a market-induced increase in provisions for guarantee products.

At €1,118.5m, expenses were virtually unchanged on 2019 (€1,126.7m). However, there was a significant increase overall in the bank levy and contributions to the deposit guarantee scheme of the *Landesbanken* and *Girozentralen*. Personnel and operating expenses, meanwhile, remained stable. The bRestructuring expense as part of the strategic cost initiative were below the previous year's figure.

The Deka Group improved net sales by a total of €14.1bn to €32.1bn year-on-year in the 2020 reporting period.

The Group increased net sales in the retail customer segment by €1.5bn compared with 2019 to €12.6bn. Fund sales rose from €5.9bn to €8.0bn. Equity funds (€4.7bn) and real estate funds (€2.5bn) accounted for a particularly significant share of this figure. Sales of certificates to retail customers totalled €4.6bn (2019: €5.3bn).

With net sales of €19.5bn, the institutional customer segment recorded a strong increase versus the previous year (€6.9bn). The very strong net sales figure of €17.4bn in the institutional fund business (2019: €5.6bn) was also boosted by a change in master KVG by a major client in the master fund segment. Certificate sales to institutional customers came to €2.2bn (2019: €1.3bn).

Deka Group net sales *in €m (Fig. 4)*

	2020	2019
Net sales	**32,148**	**18,040**
by customer segment		
Retail customers	12,600	11,117
Institutional customers	19,548	6,923
by product category		
Mutual funds and fund-based asset management	7,905	4,084
Special funds and mandates	16,945	8,637
Certificates	6,743	6,567
ETFs	555	–1,248

Investors signed up to around 776,000 (net figure) new Deka investment savings plans in 2020 (year-end 2019: approximately 620,000), meaning that Deka now manages over 5.9 million contracts.

A very strong net sales performance meant that the Deka Group's total customer assets rose by €25.7bn to €339.2bn (year-end 2019: €313.4bn). The investment performance for the year as a whole was slightly positive. Distributions to fund investors (€3.5bn) and maturing certificates (€3.3bn) offset the upward trend somewhat.

Deka Group total customer assets *in €m (Fig. 5)*

	31 Dec 2020	31 Dec 2019	Change	
Total customer assets	**339,160**	**313,412**	25,749	8.2 %
by customer segment				
Retail customers	167,159	158,749	8,410	5.3 %
Institutional customers	172,001	154,662	17,339	11.2 %
by product category				
Mutual funds and fund-based asset management	161,226	154,347	6,880	4.5 %
Special funds and mandates	144,695	127,360	17,335	13.6 %
Certificates	23,712	22,670	1,042	4.6 %
ETFs	9,527	9,035	492	5.4 %

See also: Capital adequacy: page 65 ff.

The Common Equity Tier 1 capital ratio at the close of 2020 stood at 14.2% (year-end 2019: 14.2%). The regulatory requirement was clearly exceeded at all times.

Compared with the previous year, Common Equity Tier 1 capital fell by €142m to €4,437m. The slight decline was mainly due to a larger shortfall of provisions and to the neutralisation of valuation effects for own issues dating from the 2019 financial year. Meanwhile, there was a positive effect from the retention of parts of the annual profit from the 2019 annual financial statements.

RWAs declined by €923 m from the year-end 2019 figure of €32,229m to €31,307m. Credit risk was down by €1,542m to €17,605m, which was mainly attributable to the portfolio optimisation measures introduced as part of active risk management and the associated reduction in securities in the banking book. Market risk increased by €309m to €9,578m. There was a significant decrease in general market risk, due among other things to lower spread risks despite increased spread volatilities. However, there was a significant increase in market risk measured using the standardised approach. This resulted from a changed interpretation of the use of options for offsetting in specific interest rate risk. RWAs from operational risk increased by €242m to €3,485m. CVA risk came to €638m (2019: €570m).

At 5.6%, the leverage ratio (fully loaded) exceeded the previous year's figure of 4.9%. The increase was largely attributable to the reduction in leverage ratio exposure significantly exceeding the reduction in Tier 1 capital (in line with the development of total assets). The leverage ratio was at all times substantially above the minimum of 3.0% to be adhered to from June 2021 onwards.

European banks must hold a minimum volume of own funds and MREL-eligible liabilities in order to provide sufficient loss coverage and recapitalisation in the event of resolution. The balance sheet-based approach calculates the ratio of own funds and MREL-eligible liabilities to total liabilities and own funds (TLOF). The MREL ratio as at the reporting date increased by 3.2 percentage points to 25.2% (year-end 2019: 22.0%), considerably above the statutory minimum.

Institutions and entities should meet the MREL with own funds and other subordinated liabilities to the extent necessary to prevent their creditors from incurring greater losses in the event of resolution than they would incur under normal insolvency proceedings (subordinated MREL requirements). The subordinated MREL requirements are calculated using a balance sheet-based approach. The total of eligible own funds (own funds less the combined capital buffer requirement (percentage of RWAs)) and all subordinated liabilities eligible based on statutory requirements is expressed in relation to total liabilities and own funds (TLOF). The subordinated MREL requirements as at the reporting date were 19.2% and thus significantly above the minimum required.

See also: Liquidity adequacy: page 69 ff.

The Deka Group had ample liquidity, measured using the liquidity balances and liquidity coverage ratio (LCR), throughout 2020. The LCR improved by 15 percentage points to 185.6% compared with the end of 2019 (170.6%). In percentage terms, the decline in net cash outflows was greater than the decline in holdings of high-quality liquid assets. The LCR in the reporting period was always substantially above the minimum limit of 100.0 % applicable in 2020.

Economic risk-bearing capacity was at a non-critical level overall as at the end of 2020. Utilisation of risk appetite (70.5%) increased versus the end of the previous year (63.9%). Market price and business risks increased significantly, and there was a moderate rise in operational risk. However, there was a significant reduction in counterparty risk in particular. At 53.9%, utilisation of risk capacity was above the level seen at the end of 2019 (50.7%).

Comparison of forecast and actual growth

Expectations regarding the Deka Group's key performance indicators in 2020, as set out in the forecast report of the 2019 Group management report and updated in the 2020 interim financial report, were largely met. The ongoing coronavirus crisis and the consequences for the transport and real estate financing sectors, which were particularly affected, led to increased risk provisioning requirements. At €269.4m, the economic result fell short of the forecast.

Development of key performance indicators in the Deka Group *(Fig. 6)*

		31 Dec 2019	Forecast 2020 in the Annual Report 2020	Forecast 2020 in the Interim Report 2020	31 Dec 2020	Change	
Economic result	€m	434.0	Moderate below the previous year	20% to 30% below the previous year	269.4	– 164.5	– 37.9 %
Total customer assets	€bn	313.4	Moderate above the previous year	Moderate above the previous year	339.2	25.7	8.2 %
Net sales	€bn	18.0	Above the previous year	Above the previous year	32.1	14.1	78.2 %
Common Equity Tier 1 capital ratio	%	14.2	Over 13 %	Over 13 %	14.2	0.0 %-Points	
Utilisation of risk appetite	%	63.9	Noticeable over the previous year	At non-critical level	70.5	6.6 %-Points	

Profit performance at DekaBank

DekaBank's ordinary income, i.e. the total of net income from interest and equity investments, commission income, trading profit and other operating income, amounted to €1,662m (previous year: €1,410m). At €871m, net income from interest and equity investments was up by €317m year-on-year. Net interest income amounted to €128m (previous year €146m). The main component came from the earnings contribution made by specialised financing and real estate financing. By contrast, the contribution to earnings made by strategic investments portfolio in the Capital Markets business division decreased, in particular due to volume-related factors. Measures to optimise portfolios while achieving an appropriate risk/reward ratio were implemented as part of risk management. At €744m, net income from equity investments was considerably higher than the previous year's figure of €409m due to the significantly higher distribution made by Deka Verwaltungsgesellschaft Luxembourg S.A. (formerly DekaBank Luxembourg S.A.). The increase mainly resulted from the income from the transfer of the depositary from DekaBank Luxembourg S.A. to the branch of DekaBank Deutsche Girozentrale in the 2019 financial year. Net commission income increased mainly due to higher commission from the investment fund business to €313m (previous year: €272m). Trading profit of €157m was lower than in the previous year (€196m). Other operating profit was €237m (previous year: €174m).

DekaBank's operating expenses – the sum of personnel expenses, other administrative expenses including depreciation and amortisation, and other operating expenses – fell to €968m in the year under review (previous year: €1,056m). At €385m, personnel expenses were slightly down on the comparative figure (€396m). Other administrative expenses including depreciation and amortisation came to €500m (previous year: €446m). Higher expenses for IT, consultancy expenses, as well as for the bank levy and the annual fee for the deposit guarantee scheme of the Landesbanken were offset, among other things, by lower travel expenses, costs for staff recruitment/temporary staff, as well as marketing and sales expenses. All in all, this produced a result before risk provisioning of €694m (previous year: €354m). The overall valuation result from the lending, securities and investment business for the past financial year was €– 144m (previous year: €– 24m). The decline is due primarily to higher risk provisions in the lending business as a result of the transport and real estate financing sectors being particularly hard hit by the COVID-19 crisis. After making an allocation to the fund for general banking risks to strengthen its tier 1 capital of €337.0m (previous year: €75.7m) and deducting income taxes, DekaBank achieved an operating result after tax of €74m (previous year: €101m).

DekaBank performance *in €m (Fig. 7)*

	2020	2019	Change	
Net interest income and net income from equity investments	871	554	317	57.2 %
Net commission income	313	272	42	15.3 %
Trading result	157	196	– 38	– 19.6 %
General administrative expenses	885	842	43	5.1 %
Risk provision/valuation	– 144	– 24	– 119	(<–300 %)
Income taxes	139	152	– 13	– 8.5 %
Net income after tax	**74**	**101**	– 28	– 27.4 %

Business development by business division

Business development in the Asset Management Securities business division

Amid the difficult circumstances of the coronavirus pandemic, the economic result for the Asset Management Securities business division stood at €365.8m (previous year: €416.7m). Net sales more than doubled year-on-year, with the business with institutional customers performing especially positively. High net sales increased total customer assets to €269.7bn, compared with €248.5bn in the previous year.

Net sales and total customer assets

At €22.0bn, net sales were significantly up on the figure for 2019 (€8.5bn). Despite the challenging conditions, the retail customer and institutional customer businesses both performed better than in the previous year. Sales of mutual securities funds reached €7.1bn (previous year: €4.2bn). Sales of equity funds were especially positive. The prior-year figures for bond funds and mixed funds were also exceeded. In fund-based asset management, investor caution was still in evidence. Sales stood at €– 1.9bn, compared with €– 2.3bn in 2019. Fund sales to institutional customers in 2020 totalled €16.5bn, compared with €4.8bn in the previous year. The very strong net sales performance in the institutional fund business in the reporting year was also boosted by a change in master KVG by a major client in the master fund segment. Net sales of special funds and mandates stood at €16.3bn (previous year: €8.0bn). Net inflows were recorded for master funds, securities special funds and advisory/management mandates. Net ETF sales climbed to €0.6bn (previous year: €– 1.2bn).

Net sales performance in the Asset Management Securities business division *in €m (Fig. 8)*

	2020	2019
Net sales	**22,006**	**8,545**
by customer segment		
Retail customers	5,540	3,734
Institutional customers	16,466	4,811
by product category		
Mutual funds and fund-based asset management	5,176	1,821
ETFs	555	– 1,248
Special funds and mandates	16,276	7,972

The very strong net sales performance increased total customer assets by €21.2bn to €269.7bn. The investment performance for the year as a whole was slightly positive. Distributions to fund investors had a negative impact on total customer assets.

Total customer assets in the Asset Management Securities business division *in €m (Fig. 9)*

	31 Dec 2020	31 Dec 2019	Change	
Total customer assets	**269,716**	**248,520**	21,196	8.5 %
by customer segment				
Retail customers	118,436	113,336	5,100	4.5 %
Institutional customers	151,280	135,184	16,096	11.9 %
by product category				
Mutual funds and fund-based asset management	124,721	120,561	4,160	3.5 %
thereof: equity funds	42,257	38,204	4,053	10.6 %
thereof: bond funds	27,312	30,031	−2,719	−9.1 %
thereof: mixed funds	18,726	17,580	1,146	6.5 %
ETFs	9,527	9,035	492	5.4 %
Special funds and mandates	135,469	118,924	16,544	13.9 %

Business development in the Asset Management Real Estate business division

At €149.9m, the economic result in the Asset Management Real Estate business division slightly exceeded the previous year's figure of €146.4m. Net sales also increased versus the previous year. As a result, and thanks to the solid investment performance, total customer assets reached approximately €46bn.

Net sales and total customer assets

The division's net sales increased to €3.4bn (previous year: €2.9bn). As in previous years, the tried-and-tested quota system for sales to retail customers was maintained. This allows the inflow of funds into the products to be managed effectively, even in the face of high demand. What is more, the funds' liquidity resources can be limited in the current low interest rate environment. This also helps to prevent excessive investment pressure arising in view of the continuing high real estate prices. The sales quotas that had been set were largely met by the end of the year.

Mutual funds accounted for around 80% of the division's net sales. There was particularly high demand for products focused on Europe, such as *Deka-ImmobilienEuropa* and *WestInvest InterSelect*. The newly launched funds *Deka-ImmobilienMetropolen* and Swiss Life REF (DE) European Living were also well received by customers.

At €0.9bn, net sales in open-ended mutual property funds for institutional customers, special funds, individual property funds, credit funds and mandates exceeded the previous year's figure of €0.8bn. Special funds accounted for a particularly significant proportion of sales.

Net sales performance in the Asset Management Real Estate business division *in €m (Fig. 10)*

	2020	2019
Net sales	**3,399**	**2,928**
by customer segment		
Retail customers	2,469	2,133
Institutional customers	930	795
by product category		
Mutual property funds	2,729	2,262
Special funds, individual property funds and mandates	669	666

Total customer assets in the Asset Management Real Estate business division increased by 8.3% in the reporting year, despite distributions of €1.0bn and the coronavirus crisis, to reach €45.7bn. A yield-focused cash management policy and the introduction of new products, such as the cooperation partner fund Swiss Life REF (DE) European Living, once again contributed to the increase in total customer assets. Of the total customer assets, mutual property funds accounted for €36.5bn, of which approximately 90% was from retail products. Euro-denominated mutual property funds achieved an average volume-weighted return of 2.3% (previous year: 3.3%).

Total customer assets in the Asset Management Real Estate business division *in €m (Fig. 11)*

	31 Dec 2020	31 Dec 2019	Change	
Total customer assets	**45,732**	**42,222**	3,510	8.3 %
by customer segment				
Retail customers	33,397	31,078	2,319	7.5 %
Institutional customers	12,335	11,143	1,192	10.7 %
by product category				
Mutual property funds	36,505	33,786	2,719	8.0 %
Special funds, individual property funds and mandates	9,227	8,436	791	9.4 %

Transaction volume, i.e. purchases and sales of property, increased to €5.7bn (previous year: €3.7bn), despite the restrictions caused by the coronavirus crisis. Around 85 % of the overall transaction volume concerned a total of 44 contractually secured property purchases. There were 11 disposals, representing 15% of the transaction volume. Business activities continue to centre on properties in the office, retail, logistics and hotel asset classes. With this transaction volume, the Deka Group remains one of the world's biggest property investors.

Business development in the Asset Management Services business division

The Asset Management Services business division achieved an economic result of €33.4m (previous year: €10.3m). There were increases in the number securities accounts and assets under custody (assets held by the Deka Group in its capacity as custodian bank) in Digital Multichannel Management. Assets under custody in the Depositary subdivision also saw a positive trend despite the COVID-19 pandemic.

Business development in the Asset Management Services business division

Aided by the positive market trend in the second half of 2020, assets under custody in the Digital Multichannel Management subdivision rose to €144.8bn (previous year: €136.3bn). At 89.8 million, the number of securities transactions exceeded the previous year's figure of 70.4 million. This was due to the positive sales figures for savings agreements, which continued throughout the year, as well as a rise in the number of transactions via S Broker, which, as the Deka Group's online broker, has benefited from the current situation. As of year-end 2020, the robo-advisory service bevestor GmbH has been integrated into the sales of 314 savings banks (previous year: 291) as part of the cooperation partner model.

Assets under custody rose in line with the development in Asset Management to €230.8bn (previous year: €220.3bn). The number of custody accounts for which the division is the legal provider rose increased by 186 thousand to 5.0 million in the reporting year. Regular savings products were a key driver.

Business development and profit performance in the Capital Markets business division

Due to the impact of the COVID-19 crisis, the economic result in the Capital Markets business division of €54.6m in the reporting year was below the prior-year figure (€107.1m). The business division continued to fulfil its important role as the Deka Group's provider of products, solutions and infrastructure. Deka is both using and systematically enhancing digitalisation initiatives to increase customer utility and achieve efficiency gains. These include the DEA platform for managing the savings banks' proprietary investments and the finledger platform for processing digital promissory note loans with the help of distributed ledger technology (DLT).

Business development in the Capital Markets business division
Despite its continued solid positioning in repo lending transactions, the Collateral Trading & Currency subdivision remained short of the previous year's figure. This was due to the high market liquidity and continuing low interest rates.

Amid high market volatility, the Commission Business subdivision maintained a stable level of business with shares, bonds, exchange-traded derivatives and supplementary services in 2020.

In the Trading & Structuring subdivision, the coronavirus crisis kept performance significantly below the previous year's figure. At €6.7bn, net sales of certificates at year-end 2020 remained, as expected, level with the previous year's figure of €6.6bn. At €4.6bn, retail customers accounted for the lion's share of demand (previous year: €5.3bn). Net sales of certificates to institutional customers totalled €2.2bn (previous year: €1.3bn).

Business development in the Financing business division
As a result of the coronavirus crisis, the Financing business division recorded a negative economic result of €–87.0m (previous year: €90.3m). The increased risk provisioning requirement in the reporting year was a particular factor in this. The division's gross loan volume also fell compared with the figure at the end of 2019. It was down by 9.1% to €24.8bn.

Business development in the Financing business division
In the Specialised Financing subdivision, the gross loan volume was reduced mainly by the more cautious lending policy in response to the coronavirus pandemic. It fell to €14.6bn (year-end 2019: €16.1bn). As of the end of 2020, €3.7bn related to infrastructure financing (year-end 2019: €4.0bn), €2.9bn to public sector financing (year-end 2019: €2.3bn), €1.4bn to export financing (year-end 2019: €1.6bn and €3.9bn to transport financing (year-end 2019: €4.7bn). The transport financing segment comprised ship financing of €1.0bn and aircraft financing of €2.9bn. Gross loan volume for savings bank financing fell as expected by €0.7bn compared with the end of 2019 to €2.6bn.

The legacy portfolio, which primarily contains ship financing loans that were made before the lending risk strategy was changed in 2010, was reduced further to €0.06bn as planned in 2020 (year-end 2019: €0.2bn).

Gross loan volume in the Real Estate Financing subdivision declined to €10.3bn (year-end 2019: €11.2bn). The volume of commercial property loans fell to €7.8bn (year-end 2019: €8.9bn). Around 8% of this was accounted for the retail use type and around 4% to the hotel use type, each in relation to the gross loan volume in the Real Estate Financing subdivision. The financing volume for open-ended real estate funds increased slightly, reaching €2.5bn (year-end 2019: €2.3bn).

Compared with the end of the previous year, the average rating for the loan portfolio as a whole according to the DSGV master scale deteriorated by one notch to 6 due to the effects of the COVID-19 crisis. This corresponds to a rating of BB+ on S&P's external rating scale. The average rating for Specialised Financing dropped by one notch from 5 at the end of 2019 to 6 (S&P: from BBB– to BB+). The rating for Real Estate Financing also changed by one notch from 4 at the end of the previous year to 5 (S&P: from BBB– to BBB–). Taking account of collateralised assets, the average rating for Real Estate Financing (on the DSGV master scale) deteriorated from AA (S&P: A+) to AA– (S&P: A+).

The crisis led to a significant reduction in the volume of new business in the Financing business division in 2020 to €3.9bn (previous year: €8.3bn). New business of €1.7bn in Specialised Financing (year-end 2019: €4.2bn) and €2.2bn in Real Estate Financing (year-end 2019: €4.0bn) fell short of the previous year's figures. This was due to the effects of the coronavirus crisis. Loans to savings banks accounted for 2% of total new business in the division (year-end 2019: 4%).

At €0.7bn, the total volume of placements was also below the previous year's figure of €1.1bn due to a change in the level of new business. The lion's share of this amount continued to be successfully placed within the *Sparkassen-Finanzgruppe*.

Financial position of the Deka Group

Financial management principles and objectives

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

The Treasury corporate centre acts as a resource manager for the Deka Group. On behalf of the Board of Management, Treasury manages group liquidity and Deka Group refinancing across all maturities and is responsible for asset-liability management. Treasury also manages group-wide liquidity reserves, maintaining a clear focus on liquidity. Since the beginning of 2021, the securities in the proprietary securities portfolio (Strategic Investments portfolio) have also been managed here. These are used to invest surplus financial resources and balance out differences in maturity structure. The securities in the liquidity buffer are held for short-term liquidity management. Together, the two portfolios comprise the Deka Group's liquidity management portfolio.

Treasury manages market price risks in the banking book, counterparty risks in its own banking book and equity. By setting transfer prices for the whole Group, Treasury helps to ensure that the balance sheet is evenly structured and in line with strategy, and that transactions are managed and calculated on a source-specific basis. It also assists the Board of Management with the handling of guarantee risks from funds and fund-related products.

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

For the securities that constitute the strategic investments, liquidity investing is focused on investments in investment-grade bonds, including from public sector issuers, financial services providers and corporates. Given the targets for the liquidity buffer, investment here concentrates on investments in bonds issued by German federal states, German development banks, German run-off institutions, German covered bonds (*Pfandbriefe)*, supranational institutions, investment-grade corporate bonds and, where appropriate, credit balances held with central banks. Securities suitable as cover assets for the two covered bond programmes can be taken from the liquidity buffer and Strategic Investments portfolio..

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

It offers sustainable structured products and certificates in line with the Deka Group's sustainability strategy and expanded its product range in 2020. This development was also reinforced by the publication of the Green Bond Framework, which enables the issue of green bonds and certain certificates as required as part of ongoing issuing activities.

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

Changes in the DekaBank balance sheet

Total assets as at the end of 2020 were €87.7bn, representing a drop of 11.2% from the previous year's figure of €98.7bn). On the one hand, securities held in the banking book were reduced significantly as part of active risk management. On the other, reverse repo transactions and short-term money market transactions used for liquidity management purposes were not replaced in full. On the liabilities side, this was offset by a reduction in refinancing, especially using commercial paper.

Amounts due from banks and customers fell by €5.4bn in total to €30.4bn in the period under review and equated to 34.7% of total assets (previous year: 36.3%). This was due primarily to the drop in money market transactions. Bonds and other fixed-interest securities also fell by €3.6bn to €10.2bn. This is due in particular to the reduction of securities held in the banking book as part of active risk management. The trading portfolio (assets) fell €41.1bn to €34.7bn, meaning that they equated to 39.6% of total assets in the year under review (previous year: 41.6%). The decline was due to the volume-related reduction in reverse repo transactions as well as shares and bonds in connection with synthetic lending transactions.

Amounts due to banks and customers stood at €36.5bn (previous year: €38.9bn), corresponding to 41.7% (previous year 39.4%) of total assets. The change resulted mainly from a smaller volume of money market transactions. In addition, securitised liabilities dropped by €10.1bn year-on-year to €7.8bn due to commercial paper maturing. The trading portfolio (liabilities) increased slightly by €1.0bn to €35.8bn, equating to 40.8% of total assets (previous year: 35.2%).

Changes in the DekaBank balance sheet *in €m (Fig. 12)*

	31.12.2020	31.12.2019	Change	
Total assets	**87,676**	**98,733**	–11,057	–11.2 %
Selected asset items				
Due from banks and customers	30,437	35,814	–5,377	–15.0 %
Financial assets at fair value	10,237	13,815	–3,577	–25.9 %
Financial investments	34,745	41,063	–6,318	–15.4 %
Selected liability items				
Due to banks and customers	36,531	38,910	–2,379	–6.1 %
Securitised liabilities	7,826	17,973	–10,147	–56.5 %
Financial investments	35,782	34,801	981	2.8 %

Capital and liquidity adequacy

Full details of capital and liquidity adequacy in the 2020 financial year are provided in the risk report section of the Group management report.

See also:
Risk report:
page 43 ff.

Ratings

At year-end 2020, DekaBank's ratings remained among the best in its peer group of German commercial banks. This enables access to the money and capital markets on stable and competitive terms.

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

Ratings overview *(Fig. 13)*

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

Human resources report

The total number of employees at the end of 2020 stood at 4,711 and was roughly level year-on-year (year-end: 2019: 4,723). The number of employees is determined by counting the number of employment contracts (temporary and permanent) in existence at the reporting date, including inactive employees, trainees and interns.

See also: www.deka.de/deka-group/our-responsibility/how-we-practice-sustainability/sustainability-reports-and-ratings

At 4,131, there was no significant change in the number of earnings-relevant full-time equivalents (active employees) compared with year-end 2019 (4,108). The number includes part-time employees actively involved in work processes in the Deka Group, who are counted *pro rata* on the basis of their working hours. At the year-end, approximately 78% of the workforce were employed in full-time posts. The average age of active employees (excluding apprentices and inactive staff members) was 45.1 years (previous year: 44.8 years). Further key indicators regarding sustainable HR management can be found in the sustainability report.

Implementation of the components of the Management Agenda and digitalisation strategy also has an impact on HR structures, processes, roles and tasks. Greater digitalisation in the world of work, along with the COVID-19 pandemic, is also placing new demands on managers, employees and the ways in which they work together. Deka therefore expanded and increasingly virtualised its central training programme again in 2020. This allowed it to offer professional development opportunities to its employees, even with many of them working from home during the pandemic. There was a particular focus on the "Deka Way", which combines the use of agile and traditional working methods, and a dedicated training offering to communicate this to the workforce.

In light of the coronavirus pandemic, Deka has been making increased use of mobile working since spring 2020 in order to minimise the infection risk to employees and facilitate a work-life balance. Since this time, more than 80% of employees on average have been working from home. Human Resources quickly increased the support it offers to Deka Group employees in this challenging time. This includes the "tips for mobile working" – a series for employees working from home that helps them cope with the new situation. It includes tips on healthy eating, mental health, physical fitness, dealing with conflicts, designing a workspace and looking after children. In autumn 2020, HR also implemented the new integrated health care offering "Deka machtfit", where employees can choose from a range of health services sponsored by the company.

In 2020, Deka began to pilot its *Unternehmenserfolgsmodell* (UEM) for part of its workforce. The UEM will be used to measure the company's performance. It will give greater weight to overall performance achieved by people working together and will provide a simpler, easy to understand and transparent methodology. This model will continue to be rolled out across the Deka Group in the coming years.

Deka also expanded its offering for potential new employees in 2020. In summer, the new Deka Group website launched, which included a new and improved recruitment section.

The Deka Group has already received awards from the "career and family audit" *Audit berufundfamilie* on five occasions for its family-friendly HR policy. It is actively working towards the next certification. The objectives of the Equality Plan were not fully achieved in 2020 and will therefore remain in place until the end of 2021. This will also be supported by the Diversity element of the Management Agenda.

Forecast and opportunities report

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

Forecast report

Forward-looking statements

The Deka Group's planning is based on the assumptions about future economic development that appear the most probable from a current standpoint. However, plans and statements about expected developments and the course of business during 2021 are subject to uncertainty.

Actual trends in the international money, capital and property markets and in the Deka Group may diverge significantly from our assumptions, which are partly based on expert estimates.

See also:
Risk report: page 43 ff.
Opportunities report: page 42

The Deka Group's risk position is explained in full in the risk report. If the risk scenarios referred to in the risk report should materialise, for example as a result of stress situations or counterparty default, this may result in negative differences from the forecast during the remaining months of the 2021 financial year. Conversely, opportunities may result in expectations being exceeded. The opportunities for the Deka Group are set out in the opportunities report.

The global impacts of the coronavirus pandemic on the economy in 2021 cannot yet be reliably predicted. There thus remains a high degree of uncertainty regarding future market developments. At least in the short term, there also remains a possibility of further setbacks in tackling the pandemic. These may be caused by delays in vaccinating the population or the spread of mutated variants. It therefore cannot be ruled out that the earnings, risk and capital situation, along with the corresponding performance indicators, may turn out to be less favourable than presented in the forecast report.

Expected macroeconomic trends

After the recessionary year in 2020, DekaBank expects the economic recovery process to continue in most regions of the world in 2021. Global gross domestic product is predicted to rise by 6.2%. This relies on a gradual relaxation in 2021 of the restrictions imposed on the economy to protect public health. Even if economic activity swiftly returns to a growth trajectory, the economic repercussions of the COVID-19 crisis will continue to be felt. While the industrial sector may be able to make up for a good portion of the output lost during the pandemic, this catch-up effect will be very limited in the service sector. Moreover, both demand and production will be lower than they would have been without the pandemic. The pace of recovery in disposable income will be limited by weak wage growth, increasing taxes and social security contributions and, unlike in 2020, the absence of a pension increase in Germany. Increased corporate insolvencies could also hit the economy. All in all, the expansionary impact of monetary and fiscal policy will continue to prop up the economy in 2021. In the US, the new government will set new domestic priorities and stimulate the economy with a further economic programme. On the global stage, a more constructive approach is anticipated than that seen under Donald Trump's administration. However, the trade dispute with China will continue in 2021.

The marked expansion of the money supply by central banks will generate upward demand pressure on asset prices. Despite the high growth rates in gross domestic product anticipated in the industrialised nations, underused capacity will again mean there is little inflation in goods prices. Employment already began to recover in the US, the eurozone and other industrialised countries in 2020. Nevertheless, labour markets will feel the consequences of the COVID-19 pandemic for a long time to come. This means we expect little growth in wages and only moderate inflation globally. In the eurozone, we expect signs of positive inflation again in the early months of 2021. However, the upward trend in prices will remain weak. For the most part, inflation is likely to remain significantly below the ECB's 2% target over the next few years. The low inflation rates caused by the coronavirus crisis will thus provide a basis for a continued highly expansionary monetary policy.

In industrialised nations, central banks will seek to pin inflation closer to their targets over the coming years and to limit the long-term economic damage of the coronavirus pandemic as far as possible. Both ambitions will require a sustained growth-friendly financial environment for many years to come. The central banks will use low key interest rates, securities purchases and long-term refinancing operations to achieve this. They will also communicate with market participants to assure them that no sudden change of course is expected in the coming years. The US Federal Reserve has therefore adjusted its monetary policy strategy and will orient itself in future on average rates of inflation over an extended period. The ECB is using its forward guidance to send a similar message regarding its key interest rates and the duration of its special coronavirus measures, such as the Pandemic Emergency Purchase Programme (PEPP) and targeted longer-term refinancing operations (TLTROs). A discussion is likely to begin at the ECB in 2021 as to when and under what circumstances the PEPP should be brought to an end. However, ECB monetary policy is likely to remain highly expansionary even after the PEPP, with securities purchases likely to continue as part of the Asset Purchase Programme (APP).

Expected environment for asset management

The favourable growth forecasts for the coming years are rendered more likely by the available vaccines against the coronavirus. This means that corporate profits should gradually return to pre-crisis levels. Stock markets will also continue to benefit from the highly expansionary monetary policy and low interest rate environment, providing scope for share prices to rise somewhat further. While equity markets are thus well placed, bond markets are in a more difficult position given very low yields and narrow spreads. High budget deficits and slowly increasing inflation expectations are likely to put upward pressure on the yields of long-dated US Treasuries and German government bonds. However, monetary policy in the form of extensive bond purchases by the Fed, ECB and other central banks will continue to limit this in 2021. With robust economic growth, accompanied by only a slight increase in Bund yields, the performance of corporate bonds should also remain stable. In the case of sovereign bonds in the eurozone periphery, the ECB's purchases are bound up with principally political risks, which could give rise to doubts about the sustainability of government debt.

Real estate asset management remains an appealing asset class. However, investment opportunities for real estate funds remain limited, meaning that restraint is still called for when attracting new inflows. The generally weaker demand triggered by the uncertainty of the crisis is likely to produce rising vacancy rates and downward pressure on rents in the property market, especially in the countries worst hit by the pandemic. Rent incentives will become more important. For 2021, Deka anticipates further drops in prices for shopping centres and hotels, stable prices for office real estate and rising prices for logistics properties and local amenities. In the ongoing low interest rate environment, yields will nevertheless remain at low levels for the foreseeable future, presenting fund management with particular challenges.

Expected environment for the banking business

The ECB will continue its extensive securities purchases in 2021 and offer new longer-term refinancing operations. Surplus reserves in the banking system will thus continue to rise, no more than slightly compensated by the tiered deposit rate. The immediate consequence will be sharply negative EONIA and EURIBOR rates close to the current ECB deposit rate of –0.50 %. This will also affect the bond markets, where yields on low-risk securities such as German government bonds and covered bonds will also remain negative, even in the longer maturity ranges. In this context, demand for riskier assets such as high-yield bonds or sovereign bonds of peripheral countries is likely to remain high. Spread narrowing will increase the risk of sudden market corrections; on the other hand, the prospect of continued supportive monetary policy will limit the scope and duration of such setbacks.

The capital markets business will continue to be influenced by high market liquidity and low interest rates throughout the remainder of the year. Governments and corporates also face record indebtedness. In this market environment, the Deka Group expects only moderate changes for the Capital Markets business division. In the financing business, increased market liquidity compared with 2020, along with investment pressure among institutional investors, will put rising pressure on margins, which may be reflected in the terms and conditions offered. The further development of the Financing business division will depend substantially on the duration of the COVID-19 pandemic.

Overall assessment of the expected economic trends

All in all, DekaBank expects a largely positive economic environment for asset management in financial year 2021 given an economic recovery and continued expansionary monetary policy. The higher equity and real estate prices resulting from this may have a positive influence on total customer assets. Moreover, the high levels of financial assets held by private households in general and savings bank customers in particular offer potential for fund sales. Returns on assets in the banking business will remain under pressure.

Expected business development and profit performance

It is still not possible from where we stand in 2021 to reach a conclusive estimate as to the effects of the coronavirus pandemic on the world economy. This means that a high degree of uncertainty remains about future market developments.

The Deka Group is continuing to follow through on its *Wertpapierhaus* strategy. With the Management Agenda, it aims to further enhance its position as a customer-focused, innovative and sustainable *Wertpapierhaus* for the savings banks between now and 2025.

Following the hit to earnings in 2020 due to the COVID-19 crisis, the Deka Group expects its economic result in 2021 to return to around €400m – the average figure for the last five years. This will ensure that DekaBank remains able to distribute profits and to allow the retention of parts of the annual profit necessary for the purposes of capital management.

Sales plans continue to concentrate on an investment fund business that maintains lasting value. This also includes regular securities saving. Total net sales are expected to fall significantly short of the previous year's high level. However, net sales to retail customers are expected to be higher than in 2020. In institutional customer business, we expect net sales to be below the previous year's high figure. The Deka Group anticipates a moderate year-on-year rise in total customer assets in 2021.

The Asset Management Securities business division will focus on continuing to develop its range of high-quality products and services in 2021 in close coordination with the sales departments. It will concentrate particularly on the global impacts of the coronavirus pandemic and on expanding the range of products and services for sustainable investments in line with regulatory requirements and the Deka Group’s strategy. An increase in net sales is expected in the retail business. The focus will be on an investment fund business that maintains lasting value and products for regular saving. This particularly includes sustainable investments, equity funds, income-oriented bond funds, multi-asset solutions, individual asset management products, new asset management funds, ETF-based asset management solutions and ETFs. In the institutional customer business, sales of special funds and, in particular, positive developments in institutional mutual funds and ETFs will boost sales performance and keep it at a high level.

Risks may arise from the further course of the coronavirus pandemic and its economic impact on the investment fund business. Once the pandemic has been overcome, political risks will become more significant again in the medium term. These developments could put pressure on the stock markets and dampen investors’ risk appetite, which could trigger fund outflows and an absence of new investment. In addition, a pronounced stock market correction could negatively affect total customer assets.

The Asset Management Real Estate business division aims to remain the first-choice partner for savings banks and their customers when investing in commercial property. Systems and processes for portfolio and (real estate) risk management, taking advantage of potential for digitalisation, are being constantly developed. In open-ended real estate funds for retail customers, the aim is to become the market leader without compromising on quality or stability. The sales launch of a new open-ended real estate fund is planned for the retail business in 2021. This is the division’s response to the ongoing high demand from private investors. By further tapping market potential and introducing new products, the division aims to significantly improve its market position in institutional business. Consistently taking sustainability criteria into account in property purchases and portfolio management will continue to ensure that Deka remains attractive to sustainability-oriented investors. The division is continuously driving ahead with its economically, environmentally and socially sustainable approach. As the leading asset manager in the savings banks association, the Asset Management Real Estate business division is steadily expanding its existing product range in the area of sustainability. The business division aims to further improve its net sales performance among retail and institutional customers and increase total customer assets.

There are risks to the performance of the Asset Management Real Estate business division from fierce competition in the transaction markets, which have been additionally impacted by the coronavirus restrictions. This makes transaction planning difficult. The reinforcement of measures to tackle the pandemic is creating more volatile business conditions in various parts of the economy and affecting tenants’ income. The business division aims to take a constructive approach to each individual solution and find viable long-term solutions that enable the funds to maintain profitable rental relationships. There are also risks from continued strong regulatory pressure and the further consideration of sustainability criteria, though the impacts cannot be fully predicted here.

For 2021, the Asset Management Services business division again aims to increase assets under custody in line with the targeted asset management growth. The Digital Multichannel Management subdivision will continue with its strategic direction, pushing ahead with the expansion and integration of the sales processes of physical branches and other channels for the securities products offered by the savings banks. Combined with contemporary, innovative services such as the bevestor GmbH robo-advisory product (digital asset management), this will ensure and expand access to the customer interface in the *Sparkassen-Finanzgruppe*.

The Depositary subdivision will strive to further expand its depositary function through growth in the Deka Group investment companies' mutual funds and by obtaining third-party mandates. It will continue to pursue its vision of establishing itself as the national champion, focusing on developing a comprehensive asset servicing solution.

There are risks to Digital Multichannel Management from a stagnation of sales and from product development in the custody account business or delays in the enhancement of the multichannel sales offering. Rising expenses, for instance due to changes in the regulatory environment, could exacerbate these risks. Risks to future performance in the Depositary subdivision include rising pressure on margins for depositaries as well as market-induced outflows of funds, particularly due to the effects of the COVID-19 pandemic. In addition, a pronounced stock market correction could negatively affect assets under custody and thus income from the depositary business.

The Capital Markets business division will continue its existing strategic direction as a customer-centric product and solution provider focused on DekaBank's structured products and the derivatives, issuance and trading business. This is the division's response to both regulatory requirements and current market developments. At the same time, the division will step up its support to savings banks in the form of products and services to help them fulfil their regulatory requirements. It will also be important to maintain the Deka Group's position as an infrastructure provider with international capital market access. Systematically digitalising and expanding the existing platform solutions will help to achieve this. In the certificates business, retail products will be the focus again in 2021.

Risks to the development of the Capital Markets business division arise particularly from negative capital market developments and recessionary fears due to exogenous shocks (COVID-19 pandemic and trade disputes) followed by low customer activity levels. Additional risks arise from regulatory intervention in the design of products and definition of terms and conditions and further increased market pressure on fees. Regulatory or adverse monetary policy escalations leading to additional capital backing or reporting obligations may also affect business performance.

For its business activities in 2021, the Financing business division will continue to concentrate on its defined and well-established core segments: specialised financing and real estate financing in liquid markets. It focuses its approach on core assets with a local physical presence and aims to be a sought-after refinancing partner for the savings banks. The business division is pushing ahead with its stability-focused and risk-conscious strategy in a market environment that continues to be shaped by the COVID-19 crisis.

Risks to the Financing business division arise especially from the potential further repercussions of the COVID-19 crisis on the quality of loan exposures, especially in the particularly affected sectors of transport and real estate financing. DekaBank took extensive precautions against these risks in the reporting year by focusing on specialised and real estate financing and promptly reviewing the impact on credit quality at the level of individual exposures. At least in the short term, however, there remains a possibility of further setbacks caused by delays in vaccinating the population or the spread of mutated variants. Further risks may arise from political crises, which could adversely affect the economic outlook for lending segments in which we operate. This could also lead to a need for higher loan loss provisions, or to increased capital adequacy requirements as a result of a downgrading of our credit ratings. The long acquisition periods and intense competitive pressure for credit assets may also mean that the intended new business volume and expected returns cannot be achieved. Business performance may also be negatively affected by increasing competitive pressure for project and infrastructure financing due to institutional investors acting as direct lenders.

Expected financial and risk position

The Deka Group anticipates a sound financial position for 2021. Total assets will be subject to the usual business-related fluctuations over the course of the year. The planning assumption is for total assets of less than €100bn at year-end 2021.

The Deka Group expects to maintain an adequate capital and liquidity base in both the normative and economic perspective for 2021. It continues to aim for a Common Equity Tier 1 capital ratio above the strategic target of 13%.

Balance sheet management will be geared towards ensuring compliance with an appropriate leverage ratio above the regulatory requirement applicable from June 2021 and the secure compliance with the MREL ratio and the subordinated MREL requirements.

In the risk-bearing capacity analysis, risk appetite utilisation is expected to rise slightly, particularly due to the planned new business in the Financing business division, but not to a critical level. There is increased uncertainty about risk development, however, with regard to the future development of the market environment.

The Group's liquidity position is forecast to remain at a comfortable level. The Group expects to comfortably achieve all the required liquidity ratios in 2021. This includes the NSFR requirements applicable from June 2021.

Forecast development of key performance indicators in the of Deka Group *(Fig. 14)*

		31 Dec 2020	**Forecast 2021 in the Annual Report 2020**
Economic result	€m	269.4	Around €400bn
Total customer assets	€bn	339.2	Moderate above the previous year
Net sales	€bn	32.1	Significant below the previous year
Common Equity Tier 1 capital ratio	%	14.2	Over 13 %
Utilisation of risk appetite	%	70.5	Sight above the previous year

Opportunities report

Opportunity management

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

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

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

Current opportunities

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

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

There are strategic and other opportunities associated with the strategy implementation programme. The resultant effects have already been incorporated into the planning for 2021, meaning that any further positive impacts on the Deka Group's business and results are unlikely.

Risk report

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

Risk policy and strategy

The basic principles underlying the Deka Group's risk policy remain largely unchanged from the previous year. The Group's risk strategy-based approach has enabled proportionate risk management during the coronavirus crisis. The experience gained from this crisis has been incorporated into the bank's Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP). The Deka Group has also enhanced its internal risk taxonomy, tightened risk definitions and incorporated sustainability risks.

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

A strong risk culture for the Deka Group is key to the lasting achievement of the business policy objectives set out in the business strategy. Without risk-appropriate behaviour and a sensible approach to risks, it would be impossible to limit them through overall risk management and ensure the Deka Group's lasting business success. The concept of risk appetite and the procedures for monitoring compliance with it form one of the three fundamental pillars of the Deka Group's risk culture. They are complemented by sound governance and a remuneration system that encourages appropriate risk behaviour. Processes are in place to ensure that these three pillars are continuously adjusted to changing circumstances. Staff and leadership behaviour – risk culture in the narrower sense – are shaped by the rules set down in the Code of Ethics and by the Deka Principles of Leadership, in addition to the aforementioned formal components. The Deka Group has adopted a risk culture framework laying down binding guidelines for the responsible handling of risks in the Deka Group and for compliance among employees, managers and Board members in relation to this. The framework also sets out the guiding principles that detailed rules on processes and tools have to adhere to. All Deka Group employees receive information and undergo awareness-raising measures on risk culture-related topics through mandatory annual training. Information from the regular survey on the risk culture, completed in the first quarter of 2020, was addressed and is being incorporated into the risk culture's ongoing development.

See also: Opportunities report: page 42

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

Strategy process

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

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

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

Developments in risk management

The year 2020 was defined by the global spread of the coronavirus and its impacts on the real economy and financial markets. Various changes were made to ensure that the models used by the Deka Group for economic risk management purposes continue to reflect the corporate and market situation in an appropriate and timely manner despite this changed environment. For example, the risk-bearing capacity calculation entered a stress phase at the end of the first quarter, which is associated with the additional eligibility of AT1 capital in internal capital. The macroeconomic stress scenarios were revised on an ad hoc basis. In order to avoid the impact of excessive market reactions in connection with the COVID-19 crisis and thus excessive procyclical effects in risk management, the observation period for determining historical volatilities in the calculation of economic market price risk was extended. There was also an extension in the averaging period for the calculation of bond segment curves in determining economic counterparty risk. The experience of stressed refinancing markets and stress-induced liquidity outflows during the coronavirus crisis was used to enhance the ILAAP. In the fourth quarter, for example, Deka refined its models for calculating liquidity outflows in market-wide stress scenarios for collateralised derivatives. It also improved the consistency of the internal liquidity risk limits and emergency triggers for the recovery plan indicators and updated the liquidity emergency plan based on the experience gained.

The Deka Group also refined parts of its risk management and control in the reporting year in terms of both its organisation and risk management concepts, taking due account of regulatory requirements.

In respect of the management of non-financial risks (NFR), the Deka Group has initiated a project to implement the Board of Management's guidelines for the establishment of integrated NFR management. Applying a uniform valuation methodology and establishing consolidated NFR reporting, for example, will ultimately lead to more efficient and effective processes for identifying, measuring and managing NFR. Implementation of the guidelines has begun this year using selected pilot risk types. In addition to addressing the NFR directly allocated to operational risk (e.g. personnel risks or information technology and security risk), this work will also include enhancements in the management of sustainability risk and reputational risk.

As reputational risk is of particular significance to the Deka Group, the Group already applies various complementary approaches to its identification, measurement and management. In the interests of a comprehensive management system for reputational risk, the Deka Group has this year made further efforts to develop its decision- and cause-oriented reputational risk management.

Sustainability risks have now been consistently defined for the Deka Group for the first time and incorporated into the Deka Group's risk taxonomy. In line with regulatory expectations, such as those published in the ECB guidance on climate and environmental risks in November 2020, the Deka Group does not regard sustainability risks as a standalone risk type but as a potential driver of existing risk types. The issue of sustainability has already informed the Deka Group's business strategy and organisation for many years. Positive sustainability ratings are testament to the Deka Group's efforts in sustainable business development, which go beyond those typically seen in the sector. Building on this, the Group aims to gradually develop a system for systematically managing sustainability risks. It began the process in 2020 by designing individual elements of a risk management cycle for a selected business segment (Specialised Financing). The experience gathered from this will then be used to implement similar cycles in the remaining segments.

With regard to step-in risk, the Basel Committee's guidelines on identification and measurement of step-in risk were used as a basis for systematically identifying potential applications in the reporting year, taking into account materiality criteria and risk indicators in accordance with regulatory expectations. Given the mitigation measures taken or the lack of plausibility, this assessment found no current need to maintain capital or liquidity to cover step-in risk. A regular review of the step-in risk assessment is planned to ensure the level of risk identified remains up to date.

To meet the requirements of the ECB guide on internal models published in November 2018, DekaBank has implemented all planned measures in relation to the market risk model. The measures are in keeping with the findings of an on-site audit of the market risk model conducted in 2017 in the context of the supervisory review of internal models under Pillar 1 of the Basel capital regulations (targeted review of internal models – TRIM). The review aimed to reduce the variability of model results and thereby increase confidence in internal models. It affected the internal rating models for credit risk (IRBA), internal market risk models (IMA) and internal models for estimating exposure to counterparty risk (IMM). With regard to the IRB approach, suitable measures to fulfil the requirements were implemented based on the findings of the 2019 on-site audit in the fund rating module as part of the TRIM. TRIM audits concerning counterparty risk did not affect DekaBank.

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

Concept of risk appetite

Overview

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

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

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

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

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

Risk definitions, concentrations and measurement

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

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

Counterparty risk

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

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

Market price risk

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

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

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

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

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

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

Liquidity risk

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

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

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

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

Operational risk

Operational risk means the risk of loss caused by the inadequacy or failure of internal processes, people and systems or by external events, including legal risks. In accordance with its overarching definition in the Deka Group's non-financial risk taxonomy, it can be broken down into the following sub-types: compliance risk, conduct risk, legal risk, information and communication technology and security risk, personnel risk, service provider risk, project risk and process risk.

Business risk

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

Sustainability risk

Sustainability risk describes the danger that business activities with environmental, social or corporate governance implications lead to sustainability-related developments or events that result either directly, or indirectly via reputational damage, in losses, declining revenue, higher costs or lower liquidity levels. While sustainability risks are part of the Deka Group's risk universe, their impacts mean that they are always viewed in the context of the other risk types.

Procedural measures specific to individual business activities are used to manage sustainability risks. Where sustainability risk arises in connection with counterparty risk, DekaBank manages it, among other things, by involving the Sustainability Management unit in lending decision processes as appropriate. A sustainability filter is also applied in the context of counterparty and market price risks (exclusion criteria for proprietary investments developed with the help of a sustainability rating agency). DekaBank combats potential sustainability risks arising in connection with business risk through measures such as regular dialogue with sales partners to identify and meet customer requirements, the use of exclusion criteria (e.g. controversial weapons or coal) and special investment universes for sustainably managed funds.

Reputational risk

Reputational risk describes the danger that loss events or developments resulting from Deka's business activities or in connection with other types of risk may have a negative impact on the external image of the Deka Group. This may lead to losses, declining revenue, higher costs or lower liquidity levels in addition to those incurred through other risk types. Reputational risks therefore form part of the Deka Group's risk universe but are regarded, given their effects, as comprising part of or potentially exacerbating business and liquidity risks.

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

Model risk

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

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

In the economic perspective, annual capital and risk planning uses a buffer when setting risk appetite in order to take account of uncertainty in the modelling of risks affecting profit and loss. In the context of liquidity risk, model uncertainty is mitigated using the liquidity buffer. In the normative perspective, model uncertainty from valuation models is deductible from Common Equity Tier 1 capital as part of the additional valuation adjustments under Article 34 CRR.

Step-in risk

Step-in risk describes the risk of providing support, for reputational reasons or out of other considerations in connection with a (financial) stress scenario, to affiliated companies that are unconsolidated for regulatory purposes or business partners, despite the absence of a contractual obligation to do so. In this context, step-in risks form part of the Deka Group's risk universe. However, given their effects in the event that such support is provided, they are either regarded as exacerbating other risk types or have a direct impact on internal capital.

The identification and evaluation process as part of the 2020 risk inventory showed no current need for the Deka Group to maintain capital or liquidity to cover step-in risk given the mitigation measures taken or the lack of plausibility.

Further types of risk

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

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

Risk concentrations

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

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

Risk profile of the Deka Group and its business divisions

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

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

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

Asset Management Securities business division

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

Asset Management Real Estate business division

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

Asset Management Services business division

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

Capital Markets business division

Customer-led business activity in the Capital Markets business division gives rise in particular to counterparty and market price risks, which may be exacerbated by sustainability risks. The counterparty and market price risks arise primarily from currency, securities lending, securities repurchase and derivatives transactions, from trading in financial instruments with financial institutions, savings banks, funds and companies, and in relation to DekaBank's strategic investments. Outside the Strategic Investments portfolio, proprietary trading not directly linked to customers takes place only for the purposes of managing risks from the customer business or for overall risk management purposes. The Strategic Investments portfolio was transferred to the Treasury corporate centre at the beginning of the 2021 financial year. This did not involve any change in risk profile. In relation to the division's business activities, credit spread risks and, to a lesser extent, general interest rate risks, share price risks and currency risks, including associated option risks, arise in relation to the market price risk. Whenever economically justified, risks are covered using hedging instruments. The rules for recognising hedging relationships in the balance sheet do not always correspond with the methods used for internal bank management purposes. It is therefore possible that differences may arise between the economic and accounting hedging relationships. Operational and business risks also arise. As the central securities and collateral platform in the association, the Deka Group generates economies of scale and scope. This results especially in concentrations with increased gross risk in relation to individual major banks, market makers that act for the Deka Group and central counterparties. Risk concentrations also exist in relation to individual Landesbanks as association partners. The collateral in securities lending transactions can also give rise to risk concentrations in collateral, which are limited by the rules in the Collateral Policy.

Financing business division

The business activities of the Financing business division (essentially savings bank financing, financing of the public sector, infrastructure and transport financing, ECA-backed financing and real estate financing) create corresponding focal points, primarily in counterparty risk, which may be exacerbated by sustainability risk. In accordance with the business model, this also leads to regional concentrations of counterparty risk in Germany, as well sector-based risk concentrations in relation to the financial sector. The division also faces investment risks.

Treasury

The Treasury corporate centre's various functions, especially management of the liquidity buffer, give rise to counterparty and market price risks. The investment focus of liquidity investments is currently on bonds issued by German federal states, German development banks, German run-off institutions, German covered bonds (*Pfandbriefe)*, supranational institutions and investment-grade corporate bonds. Given the strategic focus, risk is concentrated on the public sector and domestic counterparties. Market price risk chiefly involves spread risks, which are closely monitored and reduced if required through disposals or credit derivatives. Interest rate risks, currency risks and share price risks arise to a limited extent. Operational risks also exist to a limited extent. With effect from the beginning of 2021, the Strategic Investments portfolio was transferred from the Capital Markets business division to the Treasury corporate centre. This did not involve any change in risk profile.

Organisation of risk management and control

Board of Management and Administrative Board

The Board of Management is responsible for the development, promotion and integration of an appropriate risk culture within the Deka Group and is clearly committed to risk-appropriate behaviour. It is also responsible for establishing, enhancing and monitoring the effectiveness of the risk management system. Within the risk management organisation, the Board of Management makes decisions on the Deka Group's strategy, including the nature and implementation of the risk appetite concept. It defines the amount of overall risk permitted at Group level and sets the capital allocations for the different types of risk and the business divisions, including the Treasury corporate centre. The Board also sets the thresholds used for internal management purposes for the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio, the total capital ratio, the leverage ratio (LR), the Minimum Requirement for Own Funds and Eligible Liabilities (MREL), the subordinated MREL requirements , the utilisation of the large exposure limit, the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). It thereby takes decisions, in particular, on the governance framework for the internal processes used to assess the adequacy of internal capital and liquidity (ICAAP and ILAAP) and is responsible for implementing these processes. This includes setting limits at Group level for the individual risk types. Ms Birgit Dietl-Benzin took over as the Chief Risk Officer on the DekaBank Board of Management with effect from 11 June 2020.

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

Management committees

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

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

It helps the Board of Management to set the framework for managing capital and liquidity adequacy. The committee thus makes an important contribution to promoting a Group-wide risk culture. The meetings of the MKR are generally divided into the following parts. In part A, the risk round table on non-financial risks (NFR), the discussion centres on current NFR-related risk topics for each unit or business division. This usually takes place four times a year. In part B, the risk round table on financial risks, methods and models and current risk reporting, geopolitical risks and the economic environment, along with the regular reports from sub-committees in the context of financial risks, are presented to the committee and discussed. Part B, which usually takes place once a month, also discusses the handling of model risks. At the end of the 2020 financial year, the tasks and decision-making authority of the Models Committee, a sub-committee of the MKR, were expanded. This was accompanied by a change in the committee's composition. The changes enabled a streamlining of the structure of the MKR, whose meetings were previously divided into three parts. The voting members of the MKR include the member of the Board of Management responsible for risk control and the head of the Risk Control department and, depending on responsibilities and the part of the meeting concerned, the heads of the Credit Risk Office and the Finance and Risk Control Capital Market Funds departments, the COOs for the Asset Management Securities and Asset Management Real Estate business divisions, the COO for the banking divisions & depositary, and the heads of Compliance, Legal, IT, Human Resources, Business Services, Treasury, Corporate Office & Communications, Corporate Development, Sales Management & Marketing, Digital Multichannel Management, Institutional Customer Sales, Organisational Development, Information Security Management, Capital Markets, Real Estate Financing, Specialised Financing and Macro Research. The MKR is supported in this function by sub-committees, which each have individual core duties.

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

Sub-committees of the Risk Management Committee

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

The job of the Models Committee is to regularly analyse and address issues relating to DekaBank's valuation and risk models. This involves regular examination of their adequacy using model monitoring and assessment of current trends and validation issues. In this function, the Models Committee takes decisions within the scope of the authority granted to it or prepares decisions to be taken by the Board of Management with the involvement of the MKR. The committee thus makes an important contribution to ensuring overarching consistency in the models employed. Furthermore, the Models Committee represents the central body for assessing model risks, with the aim of ensuring appropriate treatment of model risk.

See also: Counterparty risk: page 71 ff.

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

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

Business divisions and corporate centres

All business divisions and the Treasury corporate centre operate within the scope of the strategic requirements. In addition, they operate within the framework set by the Board of Management on the basis of recommendations from the MKR and MKAP. The Treasury corporate centre also manages market price risks in the banking book and the liquidity, refinancing and equity of the Deka Group within these limits. The Equity investments department in the Corporate Development corporate centre has overall responsibility for the management of equity investments involving investment risk. This also includes monitoring in respect of compliance and other risks and liaising in this context with the relevant functions in the second line of defence.

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

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

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

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

On behalf of the Deka Group, the Compliance corporate centre covers the regulatory functions of the Compliance Officer as set out in the German Banking Act (*Kreditwesengesetz* – KWG), the German Securities Trading Act (*Wertpapierhandelsgesetz* – WpHG) and the German Investment Code (*Kapitalanlagegesetzbuch* – KAGB). It also covers those functions assigned to the Money Laundering Officer pursuant to the German Money Laundering Act (*Geldwäschegesetz* – GwG) and the KWG, and represents the "Central Office" for the Money Laundering Officer and in relation to the obligations to prevent criminal acts under section 25h (7) KWG. Furthermore, the Compliance corporate centre fulfils the roles of Group Money Laundering Officer, of the party responsible for processes (*Verfahrensverantwortlicher*) under section 24c KWG, of the independent body (*Unabhängige Stelle*) under sections 70 and 85 KAGB, and of the Single Officer under section 81 (5) WpHG.

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

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

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

Organisational structure of risk management in the Deka Group *(Fig. 15)*

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

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

Three Lines of Defence model

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

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

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

Accounting-related internal control and risk management system

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

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

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

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

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

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

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

Framework and tools for managing capital adequacy
The Deka Group has defined risk capacity and risk appetite as follows, depending on the perspective.

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

In the normative perspective, thresholds are set that take into account the regulatory requirements. It is important that the chosen thresholds provide sufficient notice to allow for the preparation and initiation of management measures. Escalation and information processes are triggered for governance purposes when individual thresholds are hit. The thresholds are also reviewed and adjusted as necessary as part of an annual revision process. The maximum level of risk corresponds to the red threshold for the Common Equity Tier 1 capital ratio used for internal management purposes. In the current situation, this is based on the overall capital requirements (OCR) and the Pillar 2 Guidance (P2G) as part of the SREP process. For internal management purposes, there are also red thresholds as of the end of 2020 for the Tier 1 capital ratio, the total capital ratio, the leverage ratio, the MREL ratio, the subordinated MREL requirements and utilisation of the large exposure limit.

In the normative perspective, the level of risk that the Deka Group is willing to accept in relation to profit-affecting risks is the amber threshold for the Common Equity Tier 1 capital ratio used for internal management purposes, which is comprised of the overall capital requirements (OCR), the Pillar 2 Guidance (P2G) and a management buffer. For internal management purposes, there are also amber thresholds for the Tier 1 capital ratio, the total capital ratio, the leverage ratio, the MREL ratio, the subordinated MREL requirements and utilisation of the large exposure limit. The management buffer has been determined taking into account the ECB guide to the ICAAP and is essentially based on the results of the annual risk inventory and strategic considerations as to how to respond flexibly to potential business opportunities without jeopardising capital adequacy.

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

See also: Individual risk types: page 71 ff.

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

Risk and capital planning

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

The regulatory ratios (Common Equity Tier 1 capital ratio, Tier 1 capital ratio, total capital ratio, leverage ratio, MREL ratio and the subordinated MREL requirements) are determined for each year as part of the normative risk and capital planning.

The Common Equity Tier 1 capital ratio should exceed the target ratio or at least show medium to long-term adherence to the strategic target ratio. The strategic target ratio is determined based on the supervisory requirements (OCR and P2G) plus a strategic premium, set annually as part of the planning work by the Board of Management and adjusted as necessary. The lower limit is the amber threshold used for internal management purposes for the relevant year. This is calculated based on the OCR and P2G expected to apply in the relevant year plus a management buffer.

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

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

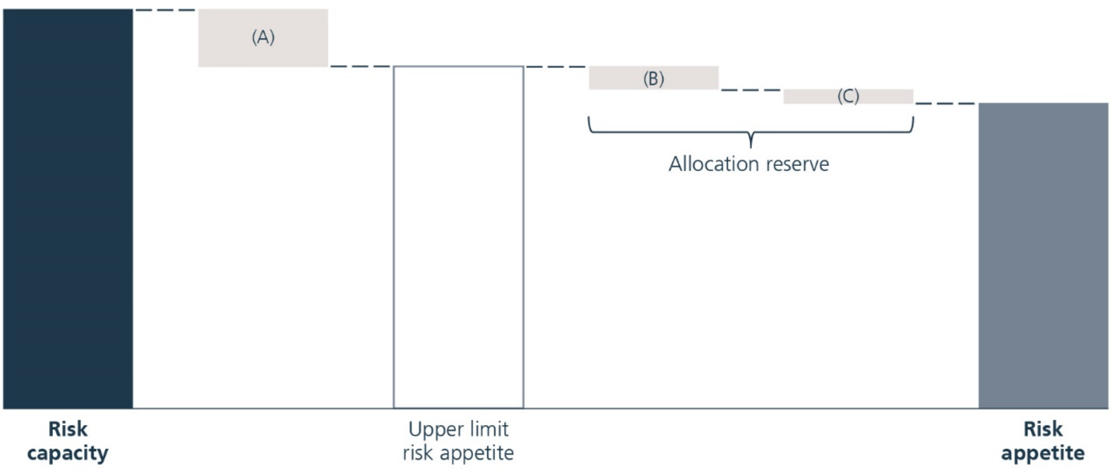
As a basic principle, internal capital is used to determine the maximum level of risk that can be incurred (impacting the income statement), taking into account risk concentrations. Risk capacity is analysed monthly. In the course of the risk-bearing capacity analysis, the risk capacity (in the form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

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

The total risk of the Deka Group that is derived from the individual types of risk is compared to the Group's internal capital available to offset losses. Internal capital, or risk capacity, consists mainly of equity capital in accordance with IFRS and earnings components, adjusted using amounts to correct for specific capital components, such as intangible assets or risks arising from pension obligations. AT1 capital, which serves as a capital buffer in periods of stress, is also included in internal capital. This internal capital is available as risk capacity – in the sense of a formal total risk limit – to safeguard risk-bearing capacity as a whole.

In normal market conditions, AT1 capital is separated from it as a stress buffer. Based on risk capacity less any stress buffer created, a management buffer is set whose amount must at least correspond to the buffer for model uncertainty (depending on the risk models used). Risk appetite is the primary control parameter. In addition to the Group-level analysis, risk is also limited, based on the risk appetite, by business division (including the Treasury corporate centre) and risk type (including investment risk) in the form of allocated risk capital.

Risk capacity and risk appetite *(Fig. 16)*



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

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

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

Normative perspective (current situation): Compliance with regulatory ratios

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

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

Macroeconomic stress tests (both perspectives)

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

The macroeconomic stress tests examine extraordinary but nonetheless plausible scenarios. These cover historical scenarios, hypothetical stress situations and institute-specific stress situations. Reputational risks are also systematically included in the stress tests. When needed, the scenarios are supplemented with relevant ad hoc analyses. Furthermore, the Deka Group also performs reverse stress tests, examining specific manifestations of scenarios that would lead, in the economic perspective, to the risk capacity being reached in the specific context of the Deka Group's business model, taking into account the associated risk concentrations, and in the normative perspective to a Common Equity Tier 1 capital ratio at the level of the red threshold.

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

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

The macroeconomic scenarios were revised on an ad hoc basis as of 31 March 2020 in the context of the COVID-19 crisis. Both the base scenario (reflects the expected development) and stress scenarios were adjusted in light of global economic developments. The description and parameters, especially of the hypothetical stress scenarios, have been amended accordingly. Some hypothetical and historical scenarios were temporarily withdrawn given their lack of relevance to the crisis. In the second half of 2020, the scenarios also underwent their regular annual review. This found that the scenarios examined continue to provide an appropriate reflection of all risks relevant to the Deka Group. The waves of reinfection and their impact on the world economy were confirmed as the trigger for the shock events in the market-wide scenarios. The description and parameters of the hypothetical and institute-specific stress scenarios were adjusted in light of the experience of the COVID-19 crisis to date.

Framework and tools for managing liquidity adequacy

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

With the ECB's approval of the liquidity waiver for DekaBank and S-Broker, the liquidity subgroup consisting of these companies has been monitored in addition to the Deka Group since April 2020.

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

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

In the normative perspective, thresholds are set that take into account the regulatory requirements. It is important that the chosen thresholds provide sufficient notice to allow for the preparation and initiation of management measures. Escalation and information processes are triggered for governance purposes when the thresholds are hit. The thresholds are also reviewed and adjusted as necessary as part of an annual revision process. The maximum level of risk corresponds to the red threshold for the LCR used for internal management purposes. In the current situation, this is based on the applicable regulatory requirement (currently 100%) plus a management buffer. In the normative perspective, the liquidity risk that the Deka Group is prepared to accept is the amber threshold for the LCR used for internal management purposes. This is comprised of the red threshold used for internal management purposes plus a management buffer. The management buffer has been determined taking into account the ECB guide to the ILAAP and is essentially based on the results of the annual risk inventory and strategic considerations as to how to respond flexibly to potential business opportunities without jeopardising liquidity adequacy. The regulatory requirements for the net stable funding ratio (NSFR) to be observed from mid-2021 are met.

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

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

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

In the event of a liquidity emergency, a crisis committee assembles. It may decide all measures judged necessary to ensure the short-term solvency of the Group and may instruct all units of the Deka Group to implement these measures. The Board of Management, as a permanent member with a voting right, is the core of this crisis committee. Continuous monitoring of market-wide and institution-specific early warning indicators and emergency triggers anticipate potential liquidity crises so that appropriate countermeasures can be quickly implemented in the event of adverse developments. The Deka Group had ample liquidity even throughout the period of stressed refinancing markets triggered by the coronavirus pandemic. Nevertheless, the experience gained in this stressed market environment was incorporated into the annual update and review of the liquidity emergency plan and associated action plan.

Medium term and funding planning

Medium-term planning involves an integrated planning process for profits, balance sheets, funding, capital and risk at Deka Group level for the next three years. This looks at liquidity adequacy in the normative perspective for planning horizons, including under adverse scenarios.

Both short-term (LCR) and medium-to-long-term liquidity adequacy (NSFR) are examined with a three-year planning horizon and under adverse scenarios. The liquidity subgroup is included in the Deka Group perspective.

Economic perspective: Funding matrices

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

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

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

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

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

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

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

Normative perspective: Liquidity coverage ratio

The Finance corporate centre monitors the internal amber threshold as part of the daily calculation of the LCRs for DekaBank Deutsche Girozentrale (which, together with S Broker, forms the liquidity subgroup). This enables proactive management of the LCRs. A Group-wide LCR is calculated on a monthly basis.

Tools for both perspectives

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

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

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

Reporting

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

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

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

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

Capital adequacy in financial year 2020

The year 2020 was defined in large part by the coronavirus pandemic. This had a considerable impact on economic activity around the globe and heavily affected the performance of financial markets. At the same time, the previous years' economic issues took something of a back seat. On the capital markets, the trend seen in 2019 continued into the first two months of the reporting year. This was followed in March by nosediving stock prices, falling interest rates and exploding credit spreads, triggered by the start of the global pandemic. There was also a sharp rise in volatilities in all asset classes. The markets were calmed again as soon as April by the massive intervention of governments and central banks in industrialised countries.

In the subsequent months, market developments largely decoupled from the COVID-19 pandemic. Stock markets rose significantly again, for example, to reach new highs by as early as the fourth quarter. By the end of 2020, credit spreads fell back to the level at which they had started the year. Only swap market yields remained at historic lows, aside from a few fluctuations. Both the EONIA curve and the three- and six-month swap curves were negative across all maturity ranges for a time.

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

The COVID-19 pandemic certainly contributed to the fact that the markets for the new reference rates in 2020 were less dynamic than the central banks in particular and financial supervisory authorities would have liked. However, the switch by the major central counterparties such as LCH and Eurex from the old overnight rates to the new benchmark reform-compatible rates such as €STR, SOFR and SONIA shows that the transition is making steady progress.

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

Despite these enormous changes in the global market, the general effects so far, and especially those at DekaBank, have been very modest. Neither the launch of €STR, nor the resulting changes to the quotation of the EONIA rate, nor the first transactions with SOFR and €STR as the reference rates have caused any issues in day-to-day business along the process chain.

The changeover process for transactions with LCH and Eurex in the middle of the pandemic presented the Bank with major challenges. The changeover was nevertheless achieved successfully and without any disruptions at the end of July.

Looking ahead, we expect further developments in 2021 in relation to the use of the new reference rates. In particular, the first alternative term rates (new term benchmarks beyond overnight rates) are beginning to emerge and may be introduced in 2021.

At DekaBank, market developments in 2020 were particularly associated with high credit spread volatility, for which there is only very limited scope for risk management and which is a key driver of market price risk. In this context, DekaBank initiated measures to optimise portfolios as part of its active risk management, resulting in a reduction in securities in the banking book. In share price, interest rate and currency risk, the largely neutral risk position meant that even the coronavirus crisis had little impact. The markets stabilised noticeably in the second half of the year, contributing to a decline in risk level. Risks from Riester products and pension obligations were an exception to this. Here, there were significant changes to risk levels over the course of the year. Particularly with interest rates persisting at their lowest levels, however, there was barely any decline in risk in the second half of 2020.

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

Economic perspective (current situation)

During the reporting year, the models employed by the Deka Group for economic risk management continued to reflect the corporate and market situation in an appropriate and timely manner, taking into account the changes applied. The Deka Group's total risk exposure (value-at-risk, confidence level 99.9%, holding period of one year) at the 2020 reporting date was €2,821m, a significant increase of €426m on the 2019 reporting date (€2,395m). Market price and business risks increased significantly, and there was a moderate rise in operational risk. However, there was a significant reduction in counterparty risk and a sharp reduction in investment risk (which is not a material risk category overall).

The increased total risk exposure was accompanied by an equally significant increase in risk capacity to €5,236m (year-end 2019: €4,726m), which was mainly attributable to risk-bearing capacity moving into a stress phase (i.e. the eligibility of AT1 capital). The positive developments in retained earnings and earnings components also increased risk capacity. There were negative effects from the change in the deduction for risks on pension obligations as well as in the other correction and deduction items and the revaluation reserve.

Particularly as a result of the changes and developments described above, the utilisation of risk capacity (53.9%) was only slightly higher than at the end of 2019 (50.7%) and remains at a non-critical level.

Utilisation of allocated risk capital was non-critical both at Deka Group level and in all business divisions. The risk appetite of €4,000m (compared to the end of 2019) was 70.5% utilised as at the 2020 reporting date (year-end 2019: 63.9%).

Change in Deka Group risk over the course of the year *€m (Fig. 17)*

	31 Dec 2020	**31 Dec 2019**	Change	
Counterparty risk	1,157	1,354	– 197	– 14.6 %
Investment risk	20	44	– 23	– 53.2 %
Market price risk	825	363	462	127.5 %
Operational risk	279	259	19	7.4 %
Business risk	541	375	165	44.0 %
Total risk	**2,821**	**2,395**	426	17.8 %

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

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

The Deka Group’s regulatory own funds as of 31 December 2020 stood at €5,753m (year-end 2019: €5,828m).

The slight decline in Common Equity Tier 1 capital by €142m to €4,437m was mainly due to a larger shortfall of provisions and to the neutralisation of valuation effects for own issues dating from the 2019 financial year. Meanwhile, there was a positive effect on Tier 1 capital from the retention of parts of the annual profit from the 2019 annual financial statements.

Compared with the previous year, Tier 2 capital rose by €67m to €842m. The issue of new subordinated debt had a positive effect on Tier 2 capital, while the reduced eligibility of Tier 2 capital under the CRR in the last five years before maturity had a negative effect.

RWAs declined by €923 m from the year-end 2019 figure of €32,229m to €31,307m. Credit risk was down by €1,542m to €17,605m, which was mainly attributable to the portfolio optimisation measures introduced as part of active risk management and the associated reduction in securities in the banking book. Market risk increased by €309m to €9,578m. There was a significant decrease in general market risk, due among other things to lower spread risks despite increased spread volatilities. However, there was a significant increase in market risk measured using the standardised approach. This resulted from a changed interpretation of the use of options for offsetting in specific interest rate risk. RWAs from operational risk increased by €242m to €3,485m. CVA risk came to €638m (2019: €570m).

At 31 December 2020, the Common Equity Tier 1 capital ratio stood at 14.2% (year-end 2019: 14.2%). The Tier 1 capital ratio as of the reporting date was 15.7% (year-end 2019: 15.7%). The total capital ratio increased from 18.1% as of 31 December 2019 to 18.4%.

Taking account of the requirements of the SREP (Supervisory Review and Evaluation Process), DekaBank had to comply at Group level with a Common Equity Tier 1 capital ratio of at least 8.42% as at 31 December 2020. This capital requirement is made up of the Pillar 1 minimum requirement (4.5%) plus the Pillar 2 requirement (1.5%, reduced to 1.125 % for the Tier 1 capital ratio and Common Equity Tier 1 capital ratio, taking into account partial coverage of P2R by Tier 2 capital), the capital conservation buffer (2.5%), the countercyclical capital buffer (approximately 0.049% as at year-end 2020) and the capital buffer for other systemically important banks (0.25%). The P2R was partially covered by Tier 2 capital for the first time due to a change in regulatory requirements. The capital requirement for the Tier 1 capital ratio (phase-in) was 9.92%. For the total capital ratio with transitional provisions (phase-in), it was 12.30%. These requirements were clearly exceeded at all times.

Deka Group own funds *in €m (Fig. 18)*

	31 Dec 2020		31 Dec 2019	
	CRR/CRD IV (without transitional provisions)	CRR/CRD IV (with transitional provisions)	CRR/CRD IV (without transitional provisions)	CRR/CRD IV (with transitional provisions)
Common Equity Tier 1 (CET 1) capital	4,437	4,437	4,579	4,579
Additional Tier 1 (AT 1) capital	474	484	474	489
Tier 1 capital	**4,911**	**4,921**	**5,053**	**5,069**
Tier 2 (T2) capital	842	842	775	775
Own funds	**5,753**	**5,763**	**5,828**	**5,844**
Credit risk	17,605	17,605	19,147	19,147
Market risk	9,578	9,578	9,269	9,269
Operational risk	3,485	3,485	3,243	3,243
CVA risk	638	638	570	570
Risk-weighted assets	**31,307**	**31,307**	**32,229**	**32,229**
%				
Common Equity Tier 1 capital ratio	**14.2**	**14.2**	**14.2**	**14.2**
Tier 1 capital ratio	**15.7**	**15.7**	**15.7**	**15.7**
Total capital ratio	**18.4**	**18.4**	**18.1**	**18.1**

The leverage ratio, i.e. the ratio of Tier 1 capital to total assets adjusted in line with regulatory requirements (leverage ratio exposure), stood at 5.6% as at 31 December 2020 (year-end 2019: 4.9 %). Taking account of the phase-in provisions, the leverage ratio for the Deka Group was 5.6% (year-end 2019: 4.9%). This was largely attributable to a significantly reduced leverage ratio exposure (€– 14,607 m; decline in line with the development of total assets) to €88,039m, while Tier 1 capital was down by €142m to €4,911m. The leverage ratio was at all times substantially above the minimum of 3.0% to be adhered to from June 2021 onwards.

The MREL ratio as at the reporting date increased by 3.2 percentage points year-on-year to 25.2% (year-end 2019: 22.0%), considerably above the statutory minimum. The balance sheet-based approach calculates the ratio of own funds and MREL-eligible liabilities to total liabilities and own funds (TLOF). Compared against 31 December 2019, there was a slight reduction of €0.6bn in own funds and MREL-eligible liabilities to €19.2bn. As of the reporting date, this figure was composed of own funds of €5.8bn, senior non-preferred issues of €9.6bn, senior preferred issues of €3.7bn and unsecured subordinated liabilities of €0.1bn. Own funds and total liabilities saw a significant fall of €13.8bn over the same period to €75.9bn.

Institutions and entities should meet the MREL with own funds and other subordinated liabilities to the extent necessary to prevent their creditors from incurring greater losses in the event of resolution than they would incur under normal insolvency proceedings (subordinated MREL requirements). The subordinated MREL requirements are calculated using a balance sheet-based approach. The total of eligible own funds (own funds less the combined capital buffer requirement (percentage of RWAs)) and all subordinated liabilities eligible based on statutory requirements is expressed in relation to total liabilities and own funds (TLOF). The subordinated MREL requirements as at the reporting date were 19.2% and thus significantly above the minimum required.

Macroeconomic stress tests

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

Liquidity adequacy in financial year 2020

The Deka Group continued to have ample liquidity, measured using the liquidity balances and LCR, throughout the reporting period. No internal limits or emergency triggers were breached at any time, despite the stress on money and capital markets caused by the coronavirus pandemic from March 2020 onwards. There were also no infringements of the minimum LCR (external requirement).

On the liquidity side, the effects of the pandemic were manifested in a significant €0.8bn increase in the provision of collateral for collateralised derivatives, taking the total to €4.6bn as of year-end 2020. At one point during the acute stress phase between March and May, as stock markets plummeted and interest rates fell, the volume of collateral provided for collateralised derivatives stood at approximately €7.7bn. The coronavirus crisis also resulted in a change in the refinancing profile. With borrowing using commercial paper proving unstable amid the market stress caused by the coronavirus, refinancing via funds, alliance partners and ECB tenders increased. Refinancing from other banks via commercial paper was almost completely eliminated. The Bank has continued to reduce the volume of evergreen financing to improve its ability to manage its liquidity risk position.

Economic perspective

There were clear positive liquidity balances in all relevant maturity bands of the "combined stress scenario" funding matrix for periods of up to 20 years. This was also the case for the alternative stress scenarios. Limits were complied with throughout the 2020 financial year, at both Deka Group and liquidity subgroup level.

As at 31 December 2020, the accumulated liquidity balance of the Deka Group's "combined stress scenario" funding matrix in the short-term range (up to one week) stood at €5.2bn (year-end 2019: €5.5bn). In the maturity band of up to one month, the liquidity surplus totalled €8.2bn (year-end 2019: €11.8bn), and in the medium-term range (three months) it amounted to €12.0bn (year-end 2019: €12.7bn). As in previous years, a substantial part of the Group's liquidity generation and provision was attributable to business with savings banks and funds.

In relation to the net cash flows of approximately €–5.8bn on day 1, the Deka Group has a high liquidity potential (around €9.9bn) that is readily convertible at short notice. The Group has access to a large portfolio of liquid securities which are eligible as collateral for central bank borrowings, as well as to available surplus cover in the cover pool and corresponding repo transactions. The strict requirements concerning the liquidity potential ensure that the securities used for this purpose can generate liquidity even in a stressed market environment.

"Combined stress scenario" funding matrix of Deka Group as at 31 December 2020 *€m (Fig. 19)*

	D1	>D1 to D5	>D5 to 1M	>1M to 3M	>3M to 12M	>12M to 5Y	>5Y to 20Y	>20Y
Liquidity potential (accumulated)	9,928	9,818	9,298	7,391	1,379	−402	−28	61
Net cash flows from derivatives (accumulated)[1)]	−287	63	1,353	2,923	4,697	3,261	2,736	2,692
Net cash flows from other products (accumulated)	−5,553	−4,708	−2,437	1,700	8,341	8,718	721	−3,013
Liquidity balance (accumulated)	**4,088**	**5,172**	**8,214**	**12,014**	**14,417**	**11,577**	**3,429**	**−260**
For information purposes:								
Net cash flows from derivatives by legal maturity (accumulated) [1)]	−287	−345	−411	−519	−684	−2,104	−1,049	2,693
Net cash flows from other products by legal maturity (accumulated)	−8,218	−8,058	−9,411	−10,397	−14,899	−4,541	−5,169	−3,938
Net cash flows by legal maturity (accumulated)	**−8,506**	**−8,403**	**−9,823**	**−10,917**	**−15,583**	**−6,644**	**−6,218**	**−1,245**

[1)] Including lending substitute transactions and issued CLNs

As at 31 December 2020, 52.2 % (year-end 2019: 58.6 %) of total refinancing related to repo transactions, overnight and time deposits and other money market products. The remainder of the refinancing concerned capital market products, primarily with longer maturity profiles. Structured issues made up 66% of total capital market issues. In particular, the volume of commercial paper issued was reduced from €10.7bn in 2019 to €0.3bn. The refinancing profile for lending business was well balanced, given the maturity structure.

Money market refinancing remained broadly diversified across a range of investor groups. Most of the investors in money market refinancing are financial service providers such as clearing houses, stock exchanges and funds, or large banks and savings banks. The reduction in the issue of commercial paper meant that the proportion of money market refinancing attributable to the savings banks increased to 19.2% (year-end 2019: 11.7%). Funds accounted for 36.7% (year-end 2019: 27.0%) and central banks for 8.7% (year-end 2019: 4.1%).

Some 59.9% of total refinancing was obtained in Germany and other eurozone countries. Approximately 34.9% of total refinancing was accounted for by issues of bearer securities that cannot be attributed to any buyer country.

Normative perspective

Together with a subsidiary, DekaBank uses a liquidity waiver in accordance with Article 8 CRR. With the ECB's approval of the liquidity waiver for DekaBank and S-Broker, the liquidity subgroup consisting of these companies has been monitored in addition to the Deka Group since April 2020.

The liquidity and funding position remained comfortable, as expressed in a liquidity coverage ratio (LCR) for the Deka Group of 185.6 % as of 31 December 2020. This was an increase of 15 percentage points from year-end 2019. In percentage terms, the decline in net cash outflows was greater than the decline in holdings of high-quality liquid assets.

The average for the reporting year was 180.4% (previous year: 146.1%). The LCR fluctuated within a range from 138.7% to 219.2%. The change in the LCR over the course of the year was due to measures to ensure liquidity during the COVID-19 crisis. The LCR was always substantially above the minimum of 100% applicable in 2020.

The regulatory requirements and internal thresholds in relation to the LCR were met throughout the period under review. No use was made of the ECB's temporary easing of the LCR rules during the coronavirus crisis.

Both perspectives (macroeconomic stress tests)

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

Individual risk types

Counterparty risk

Strategic framework and responsibilities

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

The credit risk strategy outlines the Deka Group's risk culture. It aims to ensure that loans are only issued to borrowers who are able to fulfil the terms of the credit agreement and that lending is secured as required by adequate and appropriate collateral and in line with DekaBank's risk appetite. Adherence to the overall objectives, risk determinants and minimum standards for lending ensures that lending decisions are taken in accordance with the risk culture.

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

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

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

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

Responsibilities for the assessment and monitoring of country risks are consolidated in the Country Risk Committee. Among other things, it is responsible for discussing country ratings on both a regular and ad hoc basis, approving and defining country limits within its scope of authority, identifying countries to be excluded (blacklist for high-risk countries) and determining measures to reduce overruns of country limits as well as other risk-reducing measures.

Managing, limiting and monitoring risk

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

Portfolio model

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

Operating management limits

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

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

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

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

Quantification of counterparty risk

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

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

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

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

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

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

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

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

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

Management and monitoring of counterparty risks

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

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

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

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

The MKR monitors and assesses risk concentrations for individual counterparties, regions and industries.

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

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

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

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

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

Performance of stress tests

In addition to the macroeconomic stress tests performed across all risk types, additional sensitivity tests are conducted for counterparty risk. Scenarios include, for example, the impairment of physical collateral (ineligibility) and a stress event affecting global systemically important banks. The results of the stress tests are determined quarterly and reported to the Stress Testing Committee, the Board of Management, the Risk and Credit Committee and the Administrative Board. They therefore enable the Group to identify areas for action as early as possible if crisis situations start to unfold.

Default monitoring

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

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

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

Current risk situation

The counterparty risk determined on the basis of the credit value at risk (CVaR), with a confidence level of 99.9% and a holding period of one year, declined significantly in the reporting year to €1,157m (year-end 2019: €1,354m). Risk capital allocated to counterparty risk stood at €1,630m (year-end 2019: €1,835m) and was 71.0% utilised (year-end 2019: 73.8%). The level of risk capacity utilisation therefore remained non-critical.

An increase in risk was seen in the first half of the year due to widening spreads as a result of the coronavirus crisis and rating downgrades following extensive ad hoc rating adjustments in industries particularly affected by the COVID-19 crisis. In the second half of the year, there was a significant reduction in risk, even compared against year-end 2019. This was due in particular to the portfolio optimisation measures introduced as part of active risk management and the associated reduction in securities in the banking book, as well as to a stabilisation of spread curves.

The risk position of the cluster portfolio was assessed using an expected shortfall redistribution, which resulted in a moderate decrease compared with the previous year. Given the significant reduction in the overall portfolio, however, the cluster portfolio made up a slightly increased relative share of the total portfolio. Risk concentration thus remained in line with the Deka Group's credit risk strategy.

Gross loan volume fell by €21.4bn from the end of 2019 (€141.5bn) to €120.2bn. The financial institutions risk segment, where there was a decline in repo lending volume and bond volume, made the largest contribution to this downward trend. This was compensated to some extent by increased Bundesbank deposits. The reduction in gross loan volume also came partly from reduced money market transactions and promissory note loans in the savings banks risk segment and from a lower risk from both bond and equity volumes in the corporates risk segment. Volume in the lending business was also lower than the prior-year figure. This was due to a variety of financing loans for infrastructure, transport, export and real estate, the vast majority of which were secured. In the funds risk segment, the gross loan volume fell due to fewer securities issued as collateral as part of borrowing transactions and also due to reduced fund shares. The ship portfolio's share of gross loan volume fell slightly to 0.8% (year-end 2019: 1.0%). The aircraft portfolio had a share of 2.4% (year-end 2019: 2.5%). As a result of the difficult market climate, the transport loan portfolio in particular is being closely followed and monitored on an ongoing basis.

Gross loan volume *€m (Fig. 20)*

	31 Dec 2020	31 Dec 2019
Financial institutions	56,700	63,226
Savings banks	7,434	10,548
Corporates	9,010	13,792
Public sector International	4,948	3,953
Public sector Germany	11,690	11,532
Transport and export finance	5,272	6,402
Property risks	10,417	11,492
Funds (transactions and units)	10,721	16,186
Other	3,962	4,416
Total	**120,155**	**141,548**

The net loan volume fell by €4.3bn from €65.3bn at year-end 2019 to €61.0bn. This decline was significantly smaller than the fall in gross loan volume. This was because the decline in business volume resulted in lower deductions for secured lending when converting from gross to net loan volume. This mainly reflected the offsetting of reverse repo transactions, especially as a result of the decreased volume of reverse repos in the financial institutions risk segment, the netting of lending transactions (due to their decreased volume in the funds risk segment) and the offsetting of share transactions (due to their decreased volume in the corporates risk segment). Increased deposits with Deutsche Bundesbank in the financial institutions risk segment had a risk-increasing effect in net loan volume. There was also a decline in volume in the savings bank financing segment, which was also visible after netting. A reduction in eligible collateral for various aircraft and real estate loans in the transport and export financing and real estate risk segments led to an increase in net loan volume. This was mainly due to the coronavirus pandemic.

Net loan volume *€m (Fig. 21)*

	31 Dec 2020	31 Dec 2019
Financial institutions	23,245	20,826
Savings banks	7,232	10,292
Corporates	3,927	6,970
Public sector International	1,294	1,254
Public sector Germany	10,360	9,168
Transport and export finance	682	589
Property risks	2,644	2,600
Funds (transactions and units)	7,660	9,157
Other	3,962	4,416
Total	**61,005**	**65,273**

The gross loan volume in the eurozone fell by a total of €9.2bn. This was due to reduced money market transactions and promissory note loans with savings banks, a reduction in repo transactions with counterparties in Germany and Spain and a reduced lending volume and securities portfolio in Germany and Luxembourg. The eurozone's share of the gross loan volume increased from 68.0% at the end of 2019 to 72.5% as the decline in lending was steeper in other regions.

Gross loan volume by region *€m (Fig. 22)*

	31 Dec 2020	31 Dec 2019
Eurozone	87,165	96,322
EU excluding eurozone	16,848	23,750
OECD excluding EU	13,096	17,862
International organisations	24	91
Other countries	3,023	3,524
Total	**120,155**	**141,548**

The gross loan volume attributable to Germany fell by €5.7bn to €52.4bn. In the eurozone, €12.1bn of the gross loan volume was attributable to counterparties in Luxembourg. Counterparties in France accounted for 7.9% of the gross loan volume, and counterparties in Belgium accounted for 5.1%. At €16.8bn, gross loan volume in EU countries outside the eurozone was lower than at the end of 2019, primarily due to reduced volumes of repo lending, bond trading and loans with counterparties and borrowers in the UK. In the OECD countries outside the European Union, the decline was due in particular to a lower exposure to bonds and reverse repos with US counterparties and to real estate financing in North America. There was also a reduction in the volume attributable to financial institutions in Switzerland.

Gross loan volume by regional concentration *in €m (Fig. 23)*

	31 Dec 2020	Percentage of Gross loan volume
Germany	52,394	43.6 %
United Kingdom	15,972	13.3 %
Luxembourg	12,071	10.0 %
France	9,524	7.9 %
Belgium	6,160	5.1 %
Spain	2,441	2.0 %
Netherlands	1,580	1.3 %
Italy	831	0.7 %
Other	19,183	16.0 %
Total	**120,155**	**100.0 %**

The gross loan volume relating to borrowers in Spain and Italy fell to €3.3bn, from €4.6bn at the end of 2019. Due to the collateralisation provided by repo/lending transactions, the security provided for the bond portfolio using protection buyer CDS and the securing of loans through, for example, ECA guarantees, the net loan volume attributable to borrowers in Italy, Spain and the UK was lower than the gross loan volume.

Gross loan volume by risk segment for selected countries as at 31 December 2020 *€m (Fig. 24)*

	Italy	Spain	United Kingdom	United States
Financial institutions	326	1,940	11,352	2,111
Corporates	147	291	982	1,425
Public sector International	23	119	1,198	615
Transport and export finance	149	0	229	783
Energy and utility infrastructure	0	90	143	27
Property risks	186	0	1,965	2,322
Funds (transactions and units)				
Other	0	0	103	0
Total	**831**	**2,441**	**15,972**	**7,283**
Change vs. previous year				
Financial institutions	–62	–894	–5,100	–898
Corporates	–14	–71	–941	–695
Public sector International	–163	1	–17	–225
Transport and export finance	–28	0	–33	–77
Energy and utility infrastructure	0	–6	15	–31
Property risks	–5	–1	–409	–704
Funds (transactions and units)	0	–1	–1	0
Other	–8	–37	–26	0
Total	**–279**	**–1,010**	**–6,513**	**–2,629**

The gross loan volume remained focused primarily on the short-term segment at the end of 2020. The proportion of transactions with a time to maturity of less than one year was 41.2% (year-end 2019: 44.4%). The proportion of maturities longer than ten years was 8.9%, compared with 7.5% at 31 December 2019. The average legal residual term of gross lending was 3.9 years (year-end 2019: 3.5 years).

Gross loan volume by maturity *€m (Fig. 25)*

	31 Dec 2020	31 Dec 2019
Up to 1 year	49,538	62,777
1 to 2 years	13,012	15,992
2 to 5 years	16,537	20,547
5 to 10 years	11,258	14,954
10 to 15 years	3,766	4,215
15 to 20 years	1,985	2,270
>20 years	4,937	4,188
No maturity	19,123	16,606
Total	**120,155**	**141,548**

There was no significant change in the level of risk concentration in the loan portfolio during the reporting year. As at 31 December 2020, 19.9% (year-end 2019: 20.9%) of total gross loan volume was attributable to borrower units with a gross limit of at least €2.5bn or an overall net limit of at least €1.0bn (counterparty clusters). The number of counterparty clusters increased year-on-year from 2 to 28. Of the cluster portfolio, 40.3% related to counterparties in the German public sector, the savings banks and other alliance partners. A total of 20.4% of net loan volume related to counterparty clusters (year-end 2019: 17.9%).

The Deka Group also limits the shadow banking entity portfolio in accordance with EBA requirements. Shadow banking entities include, among others, money market funds, credit funds and inadequately regulated credit institutions. In addition to the overall limits imposed on shadow banking entities, limits are imposed based on the principal and fallback approaches. This does not affect the limits at the level of individual counterparties. As in the previous year, less than 2 % of net loan volume as at 31 December 2020 related to shadow banking entities under the principal approach (limit utilisation of total net risk position: 33 %) and less than 1 % to shadow banking entities under the fallback approach (limit utilisation of total net risk position: 0 %). The levels of utilisation are considered acceptable. This view is backed up by the shadow banking entities' average rating of 2 (principal approach) on the DSGV master scale.

Over the past year, the average rating for the gross loan volume deteriorated by one notch to a rating of 3 on the DSGV master scale. The average probability of default as at 31 December 2020 was 20 basis points (bps) (year-end 2019: 14 bps), which was partly attributable, in the context of the coronavirus, to deteriorating credit ratings for high-volume counterparties in the banking sector and to aircraft, ship and real estate financing. A rating downgrade for ECA-backed export financing in Angola and for a German corporate counterparty were also significant factors in increasing the average probability of default. For the net loan volume, the average rating score remained unchanged at A–. The probability of default remained at 10 bps. 76 % of net loan volume remained in the same grouping (determined by rating class) as at the end of 2019. The target rating under the credit risk strategy was achieved for both the gross and net loan volumes.

Net loan volume by risk segment and rating *€m (Fig. 26)*

	Avera ge PD in bps	Average rating 31 Dec 2020	31 Dec 2020	Average PD in bps	Average rating 31 Dec 2019	31 Dec 2019
Financial institutions	6	A	23,245	7	A	20,826
Savings banks	1	AAA	7,232	1	AAA	10,292
Corporates	17	3	3,927	14	2	6,970
Public sector International	3	AA	1,294	7	A	1,254
Public sector Germany	1	AAA	10,360	1	AAA	9,168
Public infrastructure	14	2	936	20	3	1,273
Transport and export finance	159	8	682	79	7	589
Energy and utility infrastructure	46	5	2,822	42	5	2,749
Property risks	11	2	2,644	10	A–	2,600
Retail portfolio	0	0	204	3	AA	394
Funds (transactions and units)	11	2	7,660	11	2	9,157
Total	**10**	**A–**	**61,005**	**9**	**A–**	**65,273**

Market price risk

Strategic framework and responsibilities

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

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

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

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

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

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

Managing, limiting and monitoring risk

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

Value-at-Risk (VaR)

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

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

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

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

Sensitivity-based management metrics

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

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

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

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

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

Scenario considerations and stress analyses

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

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

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

Interest rate risk in the banking book using the earnings-based approach

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

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

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

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

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

Current risk situation
In the context of risk-bearing capacity, market price risk at the Deka Group (value-at-risk, confidence level 99.9%, holding period of one year) as at the reporting date stood at €825m. The increase versus the end of 2019 (€363m) was primarily attributable to a higher risk from guarantee products. This was due to the COVID-19 crisis, which caused nosediving stock markets (especially in the first quarter) along with falling interest rates and increased volatilities in the second quarter.

With a confidence level of 99 % and a holding period of ten days, market price risk (value-at-risk), excluding guarantee risks, stood at €51.9m as at the reporting date (year-end 2019: €41.8m). The significant jump in the first half of the year was due to the developments on financial markets triggered by the coronavirus pandemic, which led to a sharp increase in spread risk in all business divisions and in the Treasury corporate centre. To avoid further procyclical effects in risk management, the observation period for historical volatilities was extended from one to three years. At the end of the second quarter, DekaBank also initiated measures to optimise portfolios as part of active risk management, resulting in a reduction in securities in the banking book. These measures are still in place, meaning that only a moderate increase in risk is expected in the event of a renewed crisis situation Utilisation of the operational management limit at Deka Group level (excluding guarantees) stood at €91.0m (year-end 2019: €76.5m). This represented an utilisation level of 57 % and was therefore non-critical.

Deka Group value-at-risk excluding guarantee risks[1] (confidence level 99 %, holding period ten days)
€m (Fig. 27)

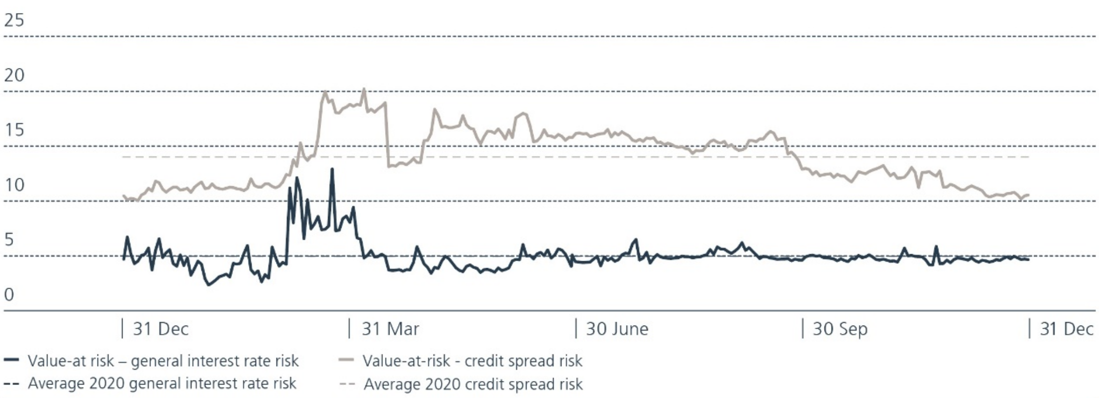
	31.12.2020						
Category	**Asset Management Securities business division**	**Asset Management Real Estate business division**	**Asset Management Services business division**	**Capital Markets business division**	**Treasury**	**Deka Group excluding guarantees**	Change in risk
Interest rate risk	4.5	0.0	4.7	38.5	15.3	52.6	22.6 %
Interest rate – general	0.5	0.0	4.2	4.3	7.8	11.4	– 17.4 %
Credit Spread	4.4	0.0	2.3	39.1	14.4	53.8	11.4 %
Share price risk	2.1	0.5	0.4	7.2	0.0	6.4	25.5 %
Currency risk	0.6	0.0	0.0	1.2	4.8	5.3	39.5 %
Total risk	**5.5**	**0.5**	**4.7**	**37.2**	**15.6**	**51.9**	24.2 %

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

At the end of 2020, the VaR for spread risk totalled €53.8m, which was higher than the level seen at year-end 2019 (€48.3m). This was attributable to the market shocks in the first half of the year due to the coronavirus crisis. In line with the business model, risk concentration in terms of spread risk was mainly attributable to German, western European and US bonds issued by the public sector, financial institutions and corporates. Risk concentration for spread risk at the end of 2020 was consistent with the Deka Group's market price risk strategy.

The VaR for general interest rate risk (excluding risks on guarantee products) decreased from €13.8m at year-end 2019 to €11.4m. The reduction began in the first quarter with a tighter management of risk (adjustments to hedges).

Value-at-risk – General interest rate risk and credit spread risk in the Capital Markets trading book over the course of 2020 *€m (Fig. 28)*



Share price risk rose compared with the year-end figure for 2019 (€5.1m) to €6.4m. The increase in this risk position was attributable to higher equity volatilities in the wake of the market shocks triggered by the COVID-19 pandemic. In terms of its amount, share price risk remained of little significance. Share price risk in the Capital Markets business division trading book totalled €6.8m (year-end 2019: €2.3m).

Value-at-risk – Share price risk in the Capital Markets trading book over the course of 2020 *€m (Fig. 29)*

As in the previous year, currency risk resulted mostly from positions in US dollars and British pounds. It stood at €5.3m (year-end 2019: €3.8m) and continued to be of minor significance. The increase resulted mainly from changes in holdings of US dollars in the Treasury corporate centre. Currency risk in the Capital Markets business division trading book stood at €0.5m (year-end 2019: €0.4m).

Value-at-risk – Currency risk in the Capital Markets trading book over the course of 2020 *€m (Fig. 30)*

Operational risk

Strategic framework and responsibilities

The strategy for dealing with operational risks (OR strategy) is based on the Deka Group's overarching risk strategy. It sets out guidelines for managing and controlling operational risks. It defines the framework for the Group-wide establishment and operation of a standard system for identifying, assessing, managing and monitoring all operational risks. The OR strategy applies to all organisational units of the Deka Group.

Roles and responsibilities

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

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

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

Various roles are performed locally within the individual Deka Group units as they implement the common tools for identifying, measuring and managing operational risks. While the division heads are responsible for implementing the requirements specified in the OR strategy and the actual management of operational risks, OR managers are responsible for decentralised application of the relevant methods, particularly with regard to ensuring consistent risk assessments. The OR managers are supported by assessors, who, as process experts, identify and evaluate OR loss scenarios as part of a self-assessment process, and by loss documenters.

Specialist functions for significant risk sub-types

For selected sub-types of operational risk that are classified as significant for the Deka Group in the results of the annual risk inventory, the units described below perform a specialist function in the second line of defence. They set requirements for the design of processes and controls, monitor adherence to these and assist the units in the first line of defence with methods of identifying, measuring and managing the specific risk type.

Compliance is responsible for the risk-oriented monitoring of compliance with the legal, regulatory and/or internal rules material to the Deka Group in relation to

- requirements under capital markets and investment law (by the Capital Market & Real Estate Compliance department),
- requirements for the prevention of money laundering, terrorist financing and other criminal activities and relevant financial sanctions/embargoes (in Germany by the Central Office for financial crime),
- requirements for the compliance function under the German Minimum Requirements for Risk Management (by Corporate Compliance).

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

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

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

Methods used

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

The methods involve both a forward-looking (ex-ante) perspective, including self-assessment and scenario analysis, as well as a backward-looking (ex-post) perspective based on Group-wide loss documentation. Alongside the common methods described below, the specialist functions in the second line of defence also use their own methods to monitor selected non-financial risks.

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

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

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

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

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

Current risk situation

The VaR for operational risk (confidence level of 99.9%, holding period of one year) increased moderately from €259m at year-end 2019 to €279m. This increase resulted both from a higher level of estimated risk associated with various loss scenarios as well as a relatively large number of actually incurred losses.

In the ex-post perspective, the costs incurred in connection with the COVID-19 pandemic for adapting IT infrastructure to cope with wholesale remote working and for disinfection and protective measures were recorded as particularly significant losses. There were also losses enabled by the new situation with remote working or exacerbated by the sometimes extreme market movements. On the ex-ante side, these effects were reflected in higher estimates of the frequency of occurrence for processing errors, for example, as well as in factors such as market volatilities or settlement volumes, which are related to both the Group's internal controls and its business environment and feed into the scenario analyses. Looking ahead, however, the Deka Group does not expect any permanent increase in the occurrence of loss events or in its risk profile, as it has now fully adapted to the new ways of working through the measures taken and has factored the changes in cost structure into its planning. Moreover, there have been no major changes in the allocation of VaR to the business divisions and the Treasury corporate centre for internal management purposes.

Risk capital allocated to operational risk stood unchanged at €335m. Utilisation increased to 83.2% as of year-end 2020 but remained at a non-critical level.

Value-at-Risk *€m (Fig. 31)*

	2018	**2019**	**2020**
Asset Management Securities business division	104	100	102
Asset Management Real Estate business division	50	47	51
Asset Management Services business division	56	55	62
Capital Markets business division	38	39	42
Financing business division	14	12	15
Treasury Corporate Centre	7	7	7
Total	**269**	**259**	**279**

At €66m, the OR loss potential identified in the Group-wide risk inventory was also noticeably up on the figure for year-end 2019 (€56m). This partly reflects the effects of the coronavirus pandemic in the form of an increased likelihood of occurrence of problems such as business interruptions due to unavailability of staff, poor asset allocation in asset management or poor performance of service providers. In addition, it reflects the fact that the maximum losses estimated for various risk scenarios (e.g. breach of investment limits) were initially adjusted conservatively to actually observed losses as well as positive loss events. Other significant effects arose from, among other things, the results of the annual self-assessment on information security risks and the widening of the assessment's scope from IT applications to infrastructure, buildings and service providers. In contrast to VaR, which is an upper limit for losses with a specific probability that the limit will not be exceeded, loss potential is an expected value that results from the estimated frequency of occurrence and scale of losses of all OR scenarios in the Deka Group.

Loss potential *€m (Fig. 32)*

	2018	2019	2020
Asset Management Securities business division	7	7	10
Asset Management Real Estate business division	8	8	9
Asset Management Services business division	5	4	5
Capital Markets business division	6	6	7
Financing business division	5	4	4
Treasury Corporate Centre	1	1	1
Savings Banks Sales & Marketing	2	2	2
Corporate Centres	22	24	28
Total	**56**	**56**	**66**

In the loss documentation, 12 major loss events (> €100 thousand) were newly recorded for the reporting period in 2020 and two were recorded retrospectively for previous periods. This compared to seven events newly or retrospectively recorded in the prior-year period. In addition to the loss components triggered by the COVID-19 pandemic and described above in relation to VaR, reimbursements to investment funds due to process-related errors in the Asset Management business divisions made up the largest share of the total losses.

Based on the Federal Ministry of Finance (BMF) circular of 17 July 2017 on the tax treatment of cum/cum transactions, tax risks exist in connection with relief from capital yields tax (*Kapitalertragsteuer*) on share transactions made around the dividend record date in the years 2013 to 2015. All matters are reported in the consolidated financial statements as at 31 December 2020 in accordance with DekaBank's interpretation of the relevant tax regulations and accounting standards. Consultation between the Federal Ministry of Finance (BMF) and the finance ministries of the German federal states regarding a potential revision of the BMF circular of 17 July 2017 was still ongoing at the time of preparing the annual financial statements (26 February 2021). Depending on the outcome, publication of an amended BMF circular could tighten up the legal rules applied by the tax authority on relief from capital yields tax (*Kapitalertragsteuer*) on share transactions made around the dividend record date.

In addition, DekaBank has begun voluntary investigations to ascertain whether its involvement enabled third parties to conduct share trades around the dividend record date and make use of abusive tax structures or whether it was otherwise involved in such structures. Based on the findings available to it, DekaBank considers it unlikely that the tax authority will be able to make a claim in relation to these matters beyond what has been recognised in the financial statements as at 31 December 2020.

Business risk

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

Key risk factors for the investment fund business (including the depositary in the Asset Management Services business division) are the planned and actual commission income and expenses and the assets under management (total customer assets). Both assets under management and net commission income depend on the behaviour of customers or sales partners as well as changes in market conditions, legal requirements or competitive conditions. Account is taken of fund price movements and net inflows and outflows when determining fund volatility. For banking activities, margins on commission business are taken into account as an additional risk factor. There are currently no business risks to be considered in the Treasury corporate centre.

In addition to regular risk measurement, risk type-specific stress tests are performed for business risk to examine its sensitivity in relation to changes in the behaviour of customers or sales partners, the economic and regulatory environment and competitive conditions. Net commission income, which is taken into account in business risk, is the major risk driver. Sensitivity analyses examine, for example, the effect of a stock market shock or a decline in net inflows. The effects of hypothetical scenarios are also analysed, such as reputational damage or equity stress (exceeding that already observed during the crisis), introduced due to the coronavirus pandemic. Alongside the sensitivity analyses and hypothetical scenarios, the stress tests also involve historical scenarios including market crashes akin to those seen after the terrorist attacks in 2001 or during the financial crisis in 2008. The results of the stress tests are determined quarterly and the impacts examined. They serve primarily to identify areas for action.

In the year under review, the VaR for business risk increased significantly to €541m (year-end 2019: €375m). The increase in risk was primarily attributable to significantly increased volatility as a result of the coronavirus crisis and, to a lesser extent, to deviations from planned net commission income, which is taken into account in business risk. The Asset Management Securities, Asset Management Services and Capital Markets business divisions were particularly affected. Risk capital allocated to business risk was increased to €750m (year-end 2019: €440m). Utilisation was 72.1 % and thus at a non-critical level. The development of business risk has been closely observed since the outbreak of the pandemic. Due to the use of an approximation, the increase in volatilities during the COVID-19 pandemic appears very conservative. As it is also possible to calculate volatilities exactly so as to achieve more appropriate results, the methodology was changed as of 31 December 2020. Given the high uncertainty that remains due to the COVID-19 pandemic, there is a possibility of further increases in business risk, particularly due to renewed market turbulence and related increases in volatility. The future handling of business risk is currently under discussion.

Other risks

Investment risk

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

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

The VaR of investment risk was €20m at year-end 2020, down significantly on the level of €44m at the end of the previous year. The significant reduction in risk was due to the sale of shares in one of the Group's investments in July 2020. On this basis, the risk capital allocated to investment risks was reduced to €30m (year-end 2019: €70m). Utilisation of this amount at year-end 2020 was 67.9%. Large-scale impacts of the coronavirus pandemic on investment risk have not been observed to date. However, negative effects cannot be completely ruled out in the current uncertain situation.

Annual financial statements

Balance sheet *as at 31 December 2020*

Assets	€	€	€	31 Dec 2020 €	31 Dec 2019 €'000
1. Cash reserves					
a) Cash on hand			5,978.40		8
b) Balances with central banks			9,128,208,660.93	9,128,214,639.33	3,744,039
of which:					
with Deutsche Bundesbank	9,126,113,193.87				(3,744,039)
2. Due from banks					
a) due on demand			3,349,067,912.68		4,124,668
b) other claims			4,243,619,945.89	7,592,687,858.57	7,069,428
of which:					
public sector loans	26,217,906.84				(88,122)
3. Due from customers				22,844,166,114.89	24,619,663
of which:					
mortgage loans	1,671,867,050.95				(1,331,891)
public sector loans	3,171,578,657.55				(2,587,484)
4. Bonds and other fixed-interest securities					
a) Bonds and debt securities					
aa) from public sector issuers		3,334,068,092.54			2,685,727
of which:					
eligible as collateral with Deutsche Bundesbank	3,321,907,051.50				(2,597,675)
ab) from other issuers		6,701,985,231.00	10,036,053,323.54		10,908,018
of which:					
eligible as collateral with Deutsche Bundesbank	3,944,228,660.97				(6,621,119)
b) own bonds			201,420,286.49	10,237,473,610.03	220,955
Nominal amount	199,441,000.00				(219,036)
5. Shares and other non fixed-interest securities				808,881,143.96	2,777,225
6. Trading portfolio				34,745,071,061.79	41,063,399
7. Equity investments				17,932,046.39	27,223
of which:					
in banks	117,903.91				(118)
8. Shares in affiliated companies				481,404,642.50	481,405
of which:					
in banks	22,987,733.45				(70,864)
in financial services providers	60,913,369.28				(13,037)
9. Trust assets				132,447,899.55	119,377
10. Intangible assets					
a) Concessions, industrial property rights, and similar rights and values as well as licences there to, acquired for a consideration			12,394,774.00		10,444
b) Goodwill			229,563,332.00		247,333
c) Advance payments			0.00	241,958,106.00	0
11. Tangible assets				18,870,398.15	13,056
12. Other assets				968,924,562.00	221,714
13. Prepaid expenses and accrued income					
a) from underwriting and lending business			75,752,016.62		66,784
b) other			381,956,642.21	457,708,658.83	332,524
Total assets				**87,675,740,741.99**	**98,732,990**

Liabilities	€	€	€	31 Dec 2020 €	31 Dec 2019 €'000
1. Due to banks					
a) due on demand			2,248,415,711.31		2,537,252
b) with agreed maturity or period of notice			12,295,545,686.41	14,543,961,397.72	12,257,382
of which:					
registered mortgage Pfandbriefe	20,000,339.73				(20,000)
registered public sector Pfandbriefe	211,831,994.39				(120,877)
2. Due to customers					
Other liabilities					
a) due on demand			14,833,123,871.53		14,017,684
b) with agreed maturity or period of notice			7,153,602,936.63	21,986,726,808.16	10,097,446
of which:					
registered mortgage Pfandbriefe	5,008,541.53				(5,009)
registered public sector Pfandbriefe	823,359,985.07				(1,545,310)
3. Securitised liabilities					
a) bonds issued			7,551,012,219.73		7,250,898
of which:					
mortgage Pfandbriefe	170,021,623.81				(109,527)
public sector Pfandbriefe	1,501,805,118.09				(760,498)
b) other securitised liabilities			274,885,010.40	7,825,897,230.13	10,721,886
of which:					
Money market securities	274,885,010.40				(10,721,886)
4. Trading portfolio				35,782,040,340.87	34,800,970
5. Trust liabilities				132,447,899.55	119,377
6. Other liabilities				334,507,128.30	435,339
7. Accruals and deferred income					
a) from underwriting and lending business			17,556,273.98		20,252
b) other			138,018,710.01	155,574,983.99	199,581
8. Provisions					
a) provisions for pensions and similar obligations			39,170,183.48		15,472
b) provisions for taxes			60,670,213.57		42,740
c) other provisions			713,578,384.51	813,418,781.56	642,806
9. Subordinated liabilities				1,446,991,712.69	1,314,276
10. Fund for general banking risks				3,960,076,792.40	3,605,603
of which:					
special item pursuant to Section 340 e (4) HGB	262,904,000.00				(245,431)
11. Equity					
a) Subscribed capital					
aa) subscribed capital		191,729,340.56			191,729
ab) silent capital contributions		52,360,457.03	244,089,797.59		52,360
b) Capital reserve			189,366,198.03		189,366
c) Retained earnings					
ca) reserves required by the Bank's statutes		0.00			0
cb) other retained earnings		165,352,188.74	165,352,188.74		165,353
d) Net income			95,289,482.26	694,097,666.62	55,218
Total liabilities				**87,675,740,741.99**	**98,732,990**

1. Contingent liabilities					
Liabilities from guarantees and warranty agreements				4,998,785,582.64	4,511,126
2. Other liabilities					
Irrevocable lending commitments				1,345,180,072.98	2,072,968

Income statement *for the period 1 January to 31 December 2020*

Expenses and income	€	€	€	2020 €	2019 €'000
1. Interest income from					
a) Lending and money market transactions		600,764,415.54			838,922
of which: negative interest income	97,820,814.41				(91,891)
b) Fixed-interest securities and debt register claims		131,479,083.50	732,243,499.04		180,305
of which: negative interest income	0.00				(0)
2. Interest expenses			604,624,370.84	127,619,128.20	873,605
of which: positive interest expenses	144,183,130.77				(131,851)
3. Current income from					
a) Shares and other non fixed-interest securities			6,954,359.97		8,834
b) Equity investments			812,061.56		2,524
c) Shares in affiliated companies			324,818,553.93	332,584,975.46	28,289
4. Income from profit pooling, profit transfer and partial profit transfer agreements				418,839,037.26	378,416
5. Commission income			1,404,450,484.81		1,260,541
6. Commission expenses			1,091,072,492.21	313,377,992.60	988,734
7. Net income/expenses from trading portfolio				157,250,856.46	195,650
8. Other operating income				319,751,656.53	387,941
9. General administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		310,118,289.23			291,639
ab) Social security contributions and expenses					
for pensions and other employee benefits		75,231,069.94	385,349,359.17		104,448
of which:					
for retirement pensions	34,998,076.60				(67,933)
b) Other administrative expenses			460,301,191.68	845,650,550.85	418,831
10. Write-downs and valuation allowances on intangible assets and tangible assets				39,542,727.00	27,419
11. Other operating expenses				82,889,022.29	213,570
12. Write-downs and valuation allowances on receivables and certain securities and allocations to provisions for loan losses				185,023,521.00	31,205
13. Allocations to the fund for general banking risks				337,000,772.67	75,678
14. Write-downs and valuation allowances on equity investments, shares in affiliates and securities held as fixed assets				41,472,006.63	7,019
15. Income from write-ups to equity investments, shares in affiliates and securities held as fixed assets				7,747,632.67	9,448
16. Profit or loss on ordinary activities				213,041,426.66	253,864
17. Income taxes				139,397,570.14	152,384
18. Income transferred under profit pooling, profit transfer or partial profit transfer agreements				33,572,424.34	46,262
19. Net income				**40,071,432.18**	55,218
20. Profit carried forward from the previous year				**55,218,050.08**	0
21. Accumulated profit				**95,289,482.26**	**55,218**

Notes

General information

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

1 Preparation of the annual financial statements

The annual financial statements of DekaBank Deutsche Girozentrale for the year ended 31 December 2020 have been prepared in accordance with the provisions of the German Commercial Code (HGB) and the Regulation on Accounting Principles Relating to Financial Institutions and Financial Services Institutions (RechKredV). The provisions of the Pfandbrief Act were also taken into account. The balance sheet structure prescribed for commercial banks was expanded to include line items relating to banks active in the Pfandbrief business.

2 Accounting and valuation methods

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

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

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

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

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

In accordance with the applicable EU Benchmark Regulation, reference interest rates (including EURIBOR, LIBOR, EONIA) were either replaced by a new reference interest rate (e.g. €STR) or were modified with regard to their calculation methodology in the reporting year. As part of the implementation of the change in the reference interest rate, DekaBank received compensation payments mainly for derivatives in the trading portfolio and also recognised these in full in profit or loss for derivatives in the banking book.

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

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

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

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

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

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

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

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

On-balance sheet and off-balance sheet interest rate financial instruments in the banking book, which are allocated to the interest book, undergo loss-free valuation pursuant to IDW RS BFA 3. Where, in their entirety, the interest book transactions valued pose a threat of excess liability, a provision is recognised for possible losses from pending transactions. Since the reporting year, the valuation has been carried out on the basis of a P&L-oriented approach including hypothetical closing-out transactions and future risk and administration costs. There was no excess liability at the reporting date, therefore the recognition of a provision was not required.

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

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

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

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

Currency translation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deferred taxes

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

3 Derivative transactions

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

Derivative transactions – volume – trading portfolio

	Nominal value		Full fair values positive market values		Full fair values negative market values	
€m	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**
Interest rate risks						
OTC products						
Interest rate swaps	449,631.8	813,689.2	13,532.4	22,940.6	12,824.1	22,460.2
Forward rate agreements	3,337.0	63,868.0	0.7	7.5	1.0	7.6
Interest rate options						
Purchases	24,481.9	22,917.9	634.0	410.8	240.4	171.8
Sales	27,058.5	26,202.3	418.5	333.4	1,167.0	748.2
Caps, floors	24,482.5	21,831.6	76.6	67.4	45.6	44.4
Other interest rate futures	3,761.0	6,477.3	38.5	105.1	201.7	97.4
Exchange traded products						
Interest rate futures/ options on interest rate futures	15,770.7	14,753.3	0.4	4.7	0.8	2.6
Total	**548,523.4**	**969,739.6**	**14,701.1**	**23,869.5**	**14,480.6**	**23,532.2**
Currency risks						
OTC products						
Foreign exchange future contracts	9,764.7	12,403.8	89.6	156.4	88.7	157.1
Interest rate/currency swaps	1,466.6	2,193.3	28.7	70.4	35.0	52.0
Currency options						
Purchases	0.9	–	0.1	–	–	–
Sales	–	–	–	–	–	–
Total	**11,232.2**	**14,597.1**	**118.4**	**226.8**	**123.7**	**209.1**
Share and other price risks						
OTC products						
Share options						
Purchases	169.4	328.4	5.6	6.9	–	–
Sales	6,000.0	6,032.5	–	–	1.0	1.2
Credit derivatives	11,658.1	11,087.7	132.0	127.0	150.6	129.8
Other forward contracts	3,397.8	6,233.7	13.4	17.4	100.7	105.2
Exchange traded products						
Share options	23,687.1	20,458.8	874.5	461.3	1,378.5	901.7
Share futures	400.8	1,380.0	7.3	4.2	5.2	4.0
Total	**45,313.2**	**45,521.1**	**1,032.8**	**616.8**	**1,636.0**	**1,141.9**
Total	**605,068.8**	**1,029,857.8**	**15,852.3**	**24,713.1**	**16,240.3**	**24,883.2**
Amount carried in the statement of financial position:			8,093.1	6,492.8	7,114.6	5,886.7

The lower carrying amount of derivatives in the trading portfolio compared with market values is due to the offsetting of market values against the variation margin. Within assets, the variation margin received reduced the fair values by a total of around €7.8bn (previous year: €18.2bn). On the other hand, the paid variation margin reduces market values on the liabilities side by around €9.1bn (previous year: €19.0bn).

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

	Interest rate risks		Currency risks		Share and other price risks	
€m	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**
Residual term to maturity						
less than 3 months	47,975.6	105,010.3	6,896.0	7,861.2	10,175.3	7,230.4
> 3 months to 1 year	51,464.8	88,078.8	2,607.9	4,497.2	8,022.1	9,394.2
> 1 year to 5 years	234,192.0	364,773.6	1,244.4	1,691.2	25,804.6	27,134.6
> than 5 years	214,891.0	411,876.9	483.9	547.5	1,311.2	1,761.9
Total	**548,523.4**	**969,739.6**	**11,232.2**	**14,597.1**	**45,313.2**	**45,521.1**

Derivative transactions – classification by counterparties – trading portfolio

	Nominal value		Full fair values positive market values		Full fair values negative market values	
€m	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**
Banks in the OECD	446,479.6	827,002.1	11,396.4	19,255.4	11,376.6	19,597.6
Public sector entities in the OECD	12,565.1	12,543.4	2,067.7	1,560.5	369.7	263.4
Other counterparties	146,024.1	190,312.3	2,388.2	3,897.2	4,494.0	5,022.2
Total	**605,068.8**	**1,029,857.8**	**15,852.3**	**24,713.1**	**16,240.3**	**24,883.2**

Derivative transactions – volume – non-trading portfolio

	Nominal value		Full fair values positive market values		Full fair values negative market values	
€m	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**
Interest rate risks						
OTC products						
Interest rate swaps	25,670.6	26,421.4	905.3	792.1	975.9	785.2
Other interest rate futures	–	8.0	–	–	–	–
Exchange traded products						
Interest rate futures/ options on interest rate futures	86.9	137.1	0.1	0.9	0.1	–
Total	**25,757.5**	**26,566.5**	**905.4**	**793.0**	**976.0**	**785.2**
Currency risks						
OTC products						
Foreign exchange future contracts	5,952.8	9,154.4	58.8	43.6	12.0	14.9
Interest rate/currency swaps	11,507.7	12,577.4	661.8	136.8	63.2	422.0
Currency options						
Purchases	1.2	–	–	–		
Sales	–	–	–	–		
Total	**17,461.7**	**21,731.8**	**720.6**	**180.4**	**75.2**	**436.9**
Share and other price risks						
OTC products						
Credit derivatives	48.8	54.0	–	0.5	0.1	–
Exchange traded products						
Share options	113.2	121.1	3.3	2.3	–	–
Share futures	50.6	46.2	–	–	0.7	0.3
Total	**212.6**	**221.3**	**3.3**	**2.8**	**0.8**	**0.3**
Total	**43,431.8**	**48,519.6**	**1,629.3**	**976.2**	**1,052.0**	**1,222.4**

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

Furthermore, a provision for possible losses in the amount of €4.3m was recognised as at the reporting date.

Under EU Regulation No. 648/2012 (EMIR), there is a requirement to perform certain OTC derivate transactions through a central counterparty. The daily settlement of gains and losses to be carried out in this process (variation margin) results in a net receivable for the non-trading portfolio of €3.0m. This is recognised in amounts 'Due from customers'.

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

	Interest rate risks		Currency risks		Share and other price risks	
€m	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**
Residual term to maturity						
less than 3 months	1,149.9	1,169.2	6,207.0	8,190.7	51.3	46.2
> 3 months to 1 year	1,683.4	2,445.4	1,132.4	2,049.4	48.8	58.6
> 1 year to 5 years	12,444.4	10,747.5	7,393.7	7,364.0	112.5	116.5
> than 5 years	10,479.8	12,204.4	2,728.6	4,127.7	–	–
Total	**25,757.5**	**26,566.5**	**17,461.7**	**21,731.8**	**212.6**	**221.3**

Derivative transactions – classification by counterparties – non-trading portfolio

	Nominal value		Full fair values positive market values		Full fair values negative market values	
€m	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**
Banks in the OECD	26,644.9	28,004.7	910.2	232.2	323.8	535.1
Public sector entities in the OECD	–	7.1	–	–	–	0.4
Other counterparties	16,786.9	20,507.8	719.1	744.0	728.2	686.9
Total	**43,431.8**	**48,519.6**	**1,629.3**	**976.2**	**1,052.0**	**1,222.4**

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

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

Name, registered office	Equity interest in %	Equity[1] €'000	Result[2] €'000
Shares in affiliated companies			
Deka Verwaltungsgesellschaft Luxembourg S.A., Luxembourg (formerly: DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg)	100.00	805,202.0	16,719.6
Deka Investment GmbH, Frankfurt/Main	100.00	93,183.1	241,728.7[3]
Deka Immobilien Investment GmbH, Frankfurt/Main	100.00	70,009.7	92,513.5[3]
S Broker AG & Co. KG, Wiesbaden	100.00	32,783.9	–2,321.3
Deka Vermögensmanagement GmbH, Frankfurt/Main	100.00	26,960.0	40,808.3[3]
Deka Beteiligungsgesellschaft mbH, Frankfurt/Main	100.00	4,051.7	–99.4
bevestor GmbH, Frankfurt/Main	100.00	3,600.0	–7,738.4[3]
Deka Vermögensverwaltungs GmbH, Frankfurt/Main	100.00	365.4	1,074.0[3]
Deka Investors Spezial InvAG m.v.K. u. TGV (TGV Unternehmensaktien), Frankfurt/Main	100.00	240.2	–8.5
Deka Treuhand GmbH, Frankfurt/Main	100.00	158.1	12.0
Privates Institut für quantitative Kapitalmarktforschung der DekaBank GmbH, Frankfurt/Main	100.00	49.3	–0.9[3]
Deka Verwaltungs GmbH, Frankfurt/Main	100.00	40.0	–1.0
LBG Leasing Beteiligungs-GmbH, Frankfurt/Main	100.00	31.1	–0.3
Deka Treuhand Erwerbsgesellschaft mbH, Frankfurt/Main	100.00	25.0	–8.8[3]
Deka Vorratsgesellschaft 03 mbH, Frankfurt/Main	100.00	24.8	–0.3[3]
Deka Vorratsgesellschaft 04 mbH, Frankfurt/Main	100.00	24.8	–0.4[3]
Deka Vorratsgesellschaft 05 mbH, Frankfurt/Main	100.00	24.8	–0.3[3]
WestInvest Gesellschaft für Investmentfonds mbH, Düsseldorf	99.74	11,338.6	43,564.5[3]
WIV GmbH & Co. Beteiligungs KG, Frankfurt/Main	94.90	12,835.5	735.4
WIV Verwaltungs GmbH, Frankfurt/Main	94.90	75.7	2.4
Equity investments			
Dealis Fund Operations GmbH i.L., Frankfurt/Main	50.00	32,853.6	–60.9
S-PensionsManagement GmbH, Cologne	50.00	28,069.5	1,244.6
Deka-Neuburger Institut für wirtschaftsmathematische Beratung GmbH, Frankfurt/Main	50.00	20.5	2.0
Indirect shares in affiliated companies			
Deka International S.A., Luxembourg	100.00	143,163.4	65,700.0
Deka Real Estate International GmbH, Frankfurt/Main	100.00	2,676.6	1,538.4
Deka Real Estate Services USA Inc., New York	100.00	2,520.4	1,192.0
Deka Far East Pte. Ltd., Singapore	100.00	1,857.2	24.7
Deka Immobilien Luxembourg S.A., Luxembourg	100.00	1,260.1	–243.0
S Broker Management AG, Wiesbaden	100.00	206.2	0.7

Name, registered office	Equity interest in %	Equity[1] €'000	Result[2] €'000
Indirect equity investments			
Sparkassen Pensionskasse AG, Cologne	50.00	89,312.8	100.8
Sparkassen Pensionsfonds AG, Cologne	50.00	3,195.6	–251.5
Heubeck AG, Cologne	30.00	6,143.0	1,794.0
Richttafeln-Unterstützungskasse GmbH, Cologne	30.00	223.0	–8.0
Dr. Heubeck Ges. mbH, Viena	30.00	198.0	28.0
Heubeck Richttafeln GmbH, Cologne	30.00	80.0	85.0
Compendata Gesellschaft zur Verwaltung von Vorsorge-einrichtungen mbh, Cologne	30.00	24.0	–278.0
DPG Deutsche Performancemessungs-Gesellschaft für Wertpapierportfolios mbH, Frankfurt/Main	22.20	3,887.9	594.8

[1] Definition of equity according to Section 266 (3 A) in conjunction with Section 272 HGB.
[2] Net profit/net loss according to Section 275 (2) No. 17 HGB
[3] A profit transfer agreement has been concluded with these companies.

With effect from 1 January 2021, DekaBank acquired (directly or indirectly) 100% of the shares in IQAM Invest GmbH, Vienna, and IQAM Partner GmbH, Salzburg.

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, Deka Verwaltungsgesellschaft Luxembourg S.A., Luxembourg (formerly DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg), can meet its commitments.

6 Other financial commitments

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

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

There is an additional funding obligation for the deposit protection reserve of the Landesbanken and Girozentralen of €79.6m (previous year: €84.0m). By 2024, the assets of the deposit guarantee scheme must be increased to the statutory target level of 0.8% of the covered deposits of its member institutions. The deposit guarantee scheme collects annual levies from its members for this purpose.

Together with a subsidiary, DekaBank uses a liquidity waiver in accordance with Article 8 CRR. Within this context, an agreement has been concluded between the two companies which ensures a free flow of financial resources between them.

Notes to the balance sheet

7 Due from banks

€m	31 Dec 2020	31 Dec 2019
This item includes:		
Receivables		
to affiliated companies	–	2.8
to companies in which an interest is held	8.2	58.2
Subordinated loans	**–**	**–**
Sub item b (other claims) – breaks down according to residual term to maturity as follows:		
less than 3 months	1,432.8	2,615.5
> 3 months to 1 year	1,007.4	1,724.6
> 1 year to 5 years	1,353.1	2,156.6
> than 5 years	450.3	572.7
	4,243.6	**7,069.4**
Used as cover funds	**26.2**	**29.1**

8 Due from customers

€m	31 Dec 2020	31 Dec 2019
This item includes:		
Receivables		
to affiliated companies	461.1	404.6
to companies in which an interest is held	9.4	10.4
Subordinated loans	**–**	**–**
This item – Due to customers – breaks down by residual term to maturity as follows:		
with indefinite term to maturity	533.1	774.6
less than 3 months	2,279.4	1,859.2
> 3 months to 1 year	1,625.2	1,656.0
> 1 year to 5 years	11,266.6	11,151.4
> than 5 years	7,139.9	9,178.5
	22,844.2	**24,619.7**
Used as cover funds	**4,605.6**	**4,134.6**

9 Bonds and other fixed-interest securities

€m	31 Dec 2020	31 Dec 2019
This item includes:		
marketable securities		
listed	9,196.3	12,200.8
unlisted	1,041.2	1,613.9
Subordinated securities	**–**	**6.6**
Securities due within one year	**2,303.3**	**2,831.9**
Used as cover funds	**675.0**	**307.1**
Book value of securities valued according to the moderate-lower-of-cost-or-market principle	4,670.1	5,017.7
Book value of securities reported at more than fair value	38.3	94.2
Market value of securities reported at more than fair value	37.4	93.7

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

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

10 Shares and other non-fixed interest securities

€m	31 Dec 2020	31 Dec 2019
This item includes:		
marketable securities		
listed	–	–
unlisted	230.0	645.0
Subordinated securities	**–**	**–**

11 Trading portfolio (assets)

This item breaks down as follows:

€m	31 Dec 2020	31 Dec 2019
Derivative financial instruments	8,093.1	6,492.8
Receivables	11,202.1	16,718.5
Debt securities and other fixed-interest securities	13,418.3	13,888.1
Shares and other non fixed-interest securities	2,049.6	3,923.8
Other assets	17.2	64.7
Risk mark-down	–35.2	–24.5
Total	**34,745.1**	**41,063.4**

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 €66.5m and amounts due from customers of €65.9m.

15 Tangible assets

This item comprises property, plant and equipment amounting to €18.9m (previous year: €13.1m).

16 Changes in fixed assets

€m							Carrying value	
Asset items	**Cost of acquisition/production**	**Additions**	**Disposals**	**Reclassifications**	**Accumulated depreciation**	**Depreciation for the year**	**31 Dec 2020**	**31 Dec 2019**
Intangible assets	422.2	18.9	0.6	13.4	211.9	36.3	242.0	257.8
Property, plant and equipment	62.8	1.0	0.0	16.6	61.5	3.3	18.9	13.1
		Changes +/– [1]						
Equity investments			–9.3				17.9	27.2
Shares in affiliated companies			0.0				481.4	481.4
Securities held as fixed assets			–347.6				4,670.1	5,017.7
Total							**5,169.4**	**5,526.3**

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

The reclassifications of intangible assets and tangible assets relate to the transfer of the business activities of Deka Verwaltungsgesellschaft Luxembourg S.A., Luxembourg (formerly: DekaBank Deutsche Girozentrale Luxembourg S.A.) to Deutsche Girozentrale Luxembourg branch with effect from 1 January 2020. This resulted in additions to intangible assets for acquired goodwill of DekaBank Deutsche Girozentrale Luxembourg branch amounting to €9.7m. Goodwill is amortised over an average useful life of ten years. In determining the useful life, it was assumed that business activities will continue unchanged. Goodwill amounted to €229.6m as of 31 December 2020 (previous year: €247.3m). No significant changes are expected for the future development of the sector or the company.

17 Other assets

€m	31 Dec 2020	31 Dec 2019
This item includes amongst others:		
Tax refund claims	134.0	132.0
Foreign exchange equalisation items	727.6	0.0
Premiums paid and margins for derivative financial instruments	7.3	7.2

18 Prepaid expenses and accrued income

€m	31 Dec 2020	31 Dec 2019
This item includes:		
Premium/discount from underwriting and lending business	75.8	66.8
Prepaid expenses and accrued income – derivative financial instruments	357.1	310.5

19 Genuine repurchase agreements

As at 31 December 2020, the book value of lent securities or securities sold under repurchase agreements amounts to €3,206,8m (previous year: €4,583.7m). Pass-through securities lending transactions of €5,919.1m (previous year: €7,971.8m) were also carried out.

20 Collateral transfer for own liabilities

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

€m	31 Dec 2020	31 Dec 2019
Due to banks	637.9	203.3
Due to customers	161.0	625.7
Trading portfolio (liabilities)	9,138.4	8,615.1

The collateral was provided mainly for borrowings as part of genuine repurchase agreements and for open market transactions with Deutsche Bundesbank. In addition, securities with a book value of €2,376.4 (previous year: €1,705.7m) were pledged as collateral for transactions on German and foreign futures exchanges.

21 Investment Shares

€m	Carrying value 31 Dec 2020	Market value 31 Dec 2020	Difference market value – carrying value	Distribution 2020	Daily redemption possible	Omitted depreciation
Equity funds	335.6	336.7	1.1	2.9	Yes	No
Bond funds	306.9	308.8	1.9	5.3	Yes	No
Mixed funds	525.5	689.4	163.9	0.1	Yes	No
Funds of funds	1.5	1.7	0.2	–	Yes	No
Real estate funds	40.4	40.5	0.1	0.6	No	No
Total	**1,209.9**	**1,377.1**	**167.2**			

22 Due to banks

€m	31 Dec 2020	31 Dec 2019
This item includes:		
Liabilities		
to affiliated companies	177.7	722.5
to companies in which an interest is held	–	–
Sub item b (with agreed maturity or period of notice) breaks down by residual term to maturity as follows:		
less than 3 months	4,047.0	5,121.6
> 3 months to 1 year	3,251.6	3,078.4
> 1 year to 5 years	3,939.9	3,091.0
> than 5 years	1,057.0	966.4
	12,295.5	**12,257.4**

23 Due to customers

€m	31 Dec 2020	31 Dec 2019
This item includes:		
Liabilities to		
affiliated companies	1,246.9	758.4
companies in which an interest is held	126.1	87.1
Sub item b (with agreed maturity or period of notice) breaks down by residual term to maturity as follows:		
less than 3 months	2,278.7	2,892.2
> 3 months to 1 year	2,600.4	2,689.9
> 1 year to 5 years	1,179.4	3,178.3
> than 5 years	1,095.1	1,337.0
	7,153.6	**10,097.4**

24 Securitised liabilities

€m	31 Dec 2020	31 Dec 2019
Proportion of sub item a (issued bonds) maturing in the following year	**1,321.8**	**1,756.2**
Sub item b (other securitised liabilities) breaks down by residual term to maturity as follows:		
less than 3 months	50.0	8,017.1
> 3 months to 1 year	224.9	2,704.8
	274.9	**10,721.9**

25 Trading portfolio (liabilities)

This item breaks down as follows:

€m	31 Dec 2020	31 Dec 2019
Derivative financial instruments	7,114.6	5,886.8
Liabilities	28,667.4	28,914.2
Total	**35,782.0**	**34,801.0**

26 Trust liabilities

Trust liabilities comprise €66.5m in amounts due to banks and €65.9m in amounts due to customers.

27 Other liabilities

€m	31 Dec 2020	31 Dec 2019
This item includes:		
Foreign exchange equalisation items	–	135.6
Bonuses for sales offices	132.3	137.7
Trade payables	48.2	47.9
Share of profit attributable to atypical silent partners	104.9	79.1
Due to custodial customers	4.8	3.8

28 Accruals and deferred income

€m	31 Dec 2020	31 Dec 2019
This item includes:		
Premium/discount from underwriting and lending business	17.6	20.3
Prepaid expenses and accrued income – derivative financial instruments	138.0	199.6

29 Provisions for pensions and similar commitments

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

in %	31 Dec 2020
Pension trend for adjustments according to Section 16 (2) Company Pensions Fund Act (BetrAVG)	1.75
Pension adjustment with overall trend updating	2.00
Salary trend	2.50

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

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

Provisions for pensions and similar commitments are discounted at the average market interest rate of the past 10 years published by Deutsche Bundesbank for an assumed residual time to maturity of 15 years. This interest rate stands at 2.3%. The difference arising under Section 253 (6) HGB between the amount of provision recognised when discounting using an average market interest rate of the past 10 financial years, and the provision amount when discounting using an average market rate of the past seven financial years, is €58.1m.

€m	31 Dec 2020	31 Dec 2019
Provisions for pensions	**39.2**	**15.5**
Acquisition cost of plan assets	351.7	344.5
Fair value of plan assets	525.3	521.2
Settlement amount of offset liabilities	564.5	536.7
Income from plan assets	–1.9	66.0
Expenses for accumulated interest	14.4	15.0
Excess of plan assets over pension liabilities	**0.0**	**0.0**

The valuation of cover assets at fair value produces an amount that exceeds the historical cost of these assets of €173.6m, which is not blocked for distribution in accordance with Section 268 (8) HGB, since the free reserves of the company exceed this figure.

30 Provisions

€m	31 Dec 2020	31 Dec 2019
Provisions in investment funds business	411.7	356.2
Provisions for restructuring measures	28.2	37.0
Provisions for legal risks	2.3	2.2
Provisions for credit risks	1.8	1.3
Provisions for operational risks	3.8	–
Provisions in human resources	104.0	88.9
Sundry other provisions	161.8	157.2
Total	**713.6**	**642.8**

DekaBank performed voluntary investigations to ascertain whether its involvement enabled third parties to conduct share trades around the dividend record date and make use of abusive tax structures or whether it was otherwise involved in such structures. The possibility of a claim in the amount of €3.8m being asserted against DekaBank in this regard due to its function as custodian cannot be ruled out in all probability. As a result, a provision for operational risks was set up in the corresponding amount as at 31 December 2020.

31 Subordinated liabilities

€m	31 Dec 2020	31 Dec 2019
Expenses from subordinated liabilities	60.7	65.6
Accrued interest on subordinated liabilities	40.9	40.7

Borrowings structured as follows:

Year of issue	Nominal amount €m	Interest rate % p.a.	Maturity
2013	25.0	4.00	2023
2013	12.7	4.13	2024
2013	5.0	4.26	2025
2013	52.1	4.50	2028
2013	18.0	4.75	2033
2014	105.7	4.01	2024
2014	137.5	4.15	2025
2014	6.0	4.34	2027
2014	10.0	4.53	2028
2014	97.0	4.52	2029
2014	6.0	4.57	2030
2014	25.0	4.80	2034
2014	473.6	6.00	--
2015	207.3	3.51	2025
2015	22.7	3.58	2026
2015	10.0	3.74	2027
2015	60.0	4.04	2030
2020	79.0	1.10	2030
2020	13.5	1.58	2035
2020	40.0	1.71	2038

The conversion of these funds into capital or another form of debt has not been agreed and is not planned. There is no early repayment obligation.

32 Equity

The breakdown of equity (excluding profits intended to distribute) is as follows:

€m	31 Dec 2020	31 Dec 2019
a) Subscribed capital		
Subscribed capital	191.7	191.7
Atypical silent capital contributions	52.4	52.4
b) Capital reserve	189.4	189.4
c) Retained earnings		
Other retained earnings	165.4	165.4
Balance sheet equity	**598.8**	**598.8**

The accumulated profit of €95.3m includes profit carried forward from the previous year of €55.2m.

33 Contingent and other liabilities

The off-balance sheet contingent liabilities amounting to €4,998.8 (previous year: €4,511.1m) include guarantees and sureties as well as liabilities under CDS transactions as protection seller. The item primarily includes liabilities arising from warranty obligations in the amount of €4,858.5m (previous year: €4,339.4m) and irrevocable lending commitments of €1,345.2m (previous year: €2,073.0m). Based on the credit rating analyses carried out, it can essentially be assumed that borrowers will meet their commitments and no utilisation is therefore expected. Loan provisions that were deducted from the items were recognised in individual cases where the default of the borrower is likely.

34 Foreign currency volumes

€m	31 Dec 2020	31 Dec 2019
Foreign currency assets	15,136.8	22,368.0
Foreign currency liabilities	3,623.4	10,742.0

Notes to the income statement

35 Net interest income from trading portfolio

€17.5m (previous year: €21.7m) of the net income from the trading portfolio totalling €157.3m (previous year: €195.7m) was transferred to the fund for general banking risks in the reporting year.

36 Other operating income

Other operating income consists mainly of €297.4m from Group offsetting and €3.0m from the reversal of provisions (including interest effect). In addition, the currency translation result from non-trading portfolio items is included at €4.4m.

37 Other operating expenses

Among other things, this item includes €53.2m in transfers to provisions (including interest effect). In addition, this item includes €6.1m in expenses from Group offsetting as well as the currency translation result of €0.2m from non-trading portfolio items.

38 Auditor's fees

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

39 Income taxes

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

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

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

In a circular dated 17 July 2017, the Federal Ministry of Finance (BMF) presented rules for the tax treatment of share trades around the dividend record date, and noted, *inter alia*, that certain transaction types may fall under the scope of section 42 of the German Tax Code (*Abgabenordnung* – AO). In a ruling dated 28 January 2020 (4 K 890/17), the Kassel Fiscal Court commented, among other things, on the entitlement to offset capital yields tax in reciprocal securities transactions for the years in dispute, 2004 to 2007. The matter on which the Kassel Fiscal Court reached its judgement differed from the share trades transacted by DekaBank around the dividend record date. DekaBank therefore still sees no convincing reason to believe that the share trades it transacted around the dividend record date will fall under the scope of section 42 AO. In the case of its share trades, DekaBank also believes that there was a transfer of beneficial ownership and therefore considers it unlikely that a final claim will be made in this regard. Since a degree of uncertainty remains as to how the tax authorities and fiscal courts will ultimately assess the share trades concerned, it is considered likely that legal action may have to be taken in order to uphold this legal position. As at 31 December 2020, the provision in this regard amounts to €47.4m. The increase in the provision by €31.7m compared to the previous year is related to the issue of an amendment notice for corporation tax in 2013 by the Frankfurt am Main V-Höchst tax authorities on 30 December 2020. According to the amended tax assessment notice, it was issued as a highly precautionary measure given the abstract possibility of payment becoming (partially) statute-barred on 31 December 2020. Since, however, unlike the circular released by the Federal Ministry of Finance (BMF) on 17 July 2017, and referring to the ruling of the Kassel Fiscal Court of 28 January 2020 (4 K 890/17), the notice includes a refusal to offset the relevant capital yields tax in full, plus the solidarity surcharge, the risk of a potential resulting fundamental change in the view of the legal consequences taken by the tax authorities was reflected by increasing the contingent liability.

40 Management and intermediary services for third parties

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

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

Information relating to *Pfandbrief* business

41 Calculation of cover for mortgage and public sector lending business

Mortgage *Pfandbriefe*

Outstanding Pfandbriefe and cover pool assets

	Nominal value		Net present value[1]	
€m	2020	2019	2020	2019
Outstanding mortgage Pfandbriefe	195.0	134.5	198.1	135.7
Cover pool mortgage Pfandbriefe	1,015.9	611.5	1,072.1	644.4
Overcollateralization	820.9	477.0	874.1	508.7
Overcollateralization as a % of outstanding	421.0	354.6	441.3	374.9

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

Outstanding Pfandbriefe and cover pool assets – risk adjusted net present values[2]

	Risk-adjusted net present value + 250 BP		Risk-adjusted net present value −250 BP		Risk-adjusted net present value Currency stress	
€m	2020	2019	2020	2019	2020	2019
Outstanding mortgage Pfandbriefe	184.7	127.5	213.0	144.7	184.7	127.5
Cover pool mortgage Pfandbriefe	1,001.4	604.3	1,153.3	690.1	1,001.4	604.3
Overcollateralization	816.8	476.8	940.2	545.4	816.8	476.8
Overcollateralization as a % of outstanding	442.3	373.9	441.4	376.8	442.3	373.9

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

Outstanding and cover pool Pfandbriefe are denominated exclusively in euros.

Maturity structure

Maturity ranges	Outstanding mortgage Pfandbriefe		Cover pool mortgage Pfandbriefe	
€m	2020	2019	2020	2019
up to 6 months	0.0	19.5	20.2	0.0
> 6 months to 12 months	10.0	10.0	56.8	74.6
> 12 months to 18 months	20.0	0.0	0.0	20.2
> 18 months to 2 years	25.0	10.0	207.0	0.0
> 2 years to 3 years	60.0	35.0	67.2	176.0
> 3 years to 4 years	30.0	60.0	250.5	67.2
> 4 years to 5 years	50.0	0.0	217.0	56.4
> 5 years to 10 years	0.0	0.0	197.1	217.0
> 10 years	0.0	0.0	0.0	0.0
Total	**195.0**	**134.5**	**1,015.9**	**611.5**

Breakdown of cover pool assets by size

€m	Total nominal value 2020	Total nominal value 2019
Ordinary cover:		
up to €0.3m[1]	0.0	0.0
> €0.3m to €1.0m[1]	0.0	0.0
> €1.0m to €10.0m[1]	0.0	5.9
> €10.0m[1]	980.9	570.6
	980.9	**576.5**
Other cover pool assets[1]	35.0	35.0
Total	**1,015.9**	**611.5**

[1] secured by mortgages

Additional information

	2020	2019
Share of fixed-interest assets outstanding (in %)	100.0	100.0
Share of fixed-interest assets in cover pool (in %)	77.1	75.3
Volume-weighted average age of receivables (in years)	3.2	3.4
Average weighted mortgage loan-to-value (in %)	59.3	58.5

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

Total amount of additional cover pool assets

€m	2020	2019
Cover pool assets according to Section 19 (1) no. 2 PfandBG		
based in: Germany	35.0	35.0
thereof exposure in covered bonds according to Article 129 Regulaton (EU) no. 575/2013	0.0	0.0

Breakdown of cover pool assets by type of use

Total amounts	Federal Republic of Germany		France		Total	
€m	2020	2019	2020	2019	2020	2019
Commercial use	349.5	301.3	631.4	275.2	980.9	576.5
Other cover pool assets[1]	35.0	35.0	0.0	0.0	35.0	35.0
Total	**384.5**	**336.3**	**631.4**	**275.2**	**1,015.9**	**611.5**

[1] Including mandatory overcollateralization/safeguarding liquidity

Breakdown of cover pool assets by type of building

Total amounts	Federal Republic of Germany		France		Total	
€m	2020	2019	2020	2019	2020	2019
Office buildings	233.8	179.8	566.5	231.3	800.3	411.1
Retail buildings	0.0	0.0	64.8	43.8	64.8	43.8
Other commercial buildings	115.7	121.5	0.0	0.0	115.7	121.5
Other cover pool assets[1]	35.0	35.0	0.0	0.0	35.0	35.0
Total	**384.5**	**336.3**	**631.4**	**275.2**	**1,015.9**	**611.5**

[1] Including mandatory overcollateralization/safeguarding liquidity

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

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

As in the previous year, no foreclosure sales were carried out in financial year 2020.

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

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

Public sector *Pfandbriefe*

Outstanding Pfandbriefe and cover pool assets

	Nominal value		Net present value[1]	
€m	**2020**	**2019**	**2020**	**2019**
Outstanding public sector Pfandbriefe	3,463.8	2,606.4	3,724.9	2,851.8
Cover pool public sector Pfandbriefe	4,291.0	3,859.3	4,629.3	4,209.6
Overcollateralization	827.2	1,253.0	904.4	1,357.8
Overcollateralization as a % of outstanding	23.9	48.1	24.3	47.6

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

Outstanding Pfandbriefe and cover pool assets – risk adjusted net present values[2]

	Risk-adjusted net present value + 250 BP		Risk-adjusted net present value – 250 BP		Risk-adjusted net present value Currency stress	
€m	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Outstanding public sector Pfandbriefe	3,345.4	2,531.4	4,201.5	3,247.0	3,345.4	2,501.7
Cover pool public sector Pfandbriefe	4,087.5	3,731.7	5,392.3	4,873.9	4,065.7	3,689.2
Overcollateralization	742.1	1,200.2	1,190.7	1,626.9	720.3	1,187.5
Overcollateralization as a % of outstanding	22.2	47.4	28.3	50.1	21.5	47.5

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

Maturity structure

Maturity ranges	Outstanding public sector Pfandbriefe		Cover pool public sector Pfandbriefe	
€m	**2020**	**2019**	**2020**	**2019**
up to 6 months	281.9	72.4	125.1	174.0
> 6 months to 12 months	0.5	231.0	84.1	40.9
> 12 months to 18 months	673.0	105.8	79.4	185.1
> 18 months to 2 years	190.0	0.5	15.9	138.7
> 2 years to 3 years	545.0	288.0	585.5	189.3
> 3 years to 4 years	369.7	395.0	348.2	274.5
> 4 years to 5 years	290.0	367.5	325.5	229.1
> 5 years to 10 years	718.9	943.3	1,348.1	1,480.3
> 10 years	394.7	202.8	1,379.1	1,147.3
Total	**3,463.8**	**2,606.4**	**4,291.0**	**3,859.3**

Breakdown of cover pool assets by size

€m	Total nominal value 2020	2019
Ordinary cover:		
up to €10.0m	107.2	107.9
> €10.0m to €100.0m	1,787.1	1,809.4
> €100.0m	2,396.6	1,942.0
	4,291.0	**3,859.3**
Other cover pool assets[1]	0.0	0.0
Total	**4,291.0**	**3,859.3**

Additional information

	2020	2019
Share of fixed-interest assets outstanding (in %)	100.0	93.2
Share of fixed-interest assets in cover pool (in %)	70.7	76.4
Net present values for each foreign currency in €m:		
USD	130.7	76.7

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

Total amount of additional cover pool assets

€m	2020	2019
Cover pool assets according to Section 20 (2) no. 2 PfandBG		
based in: Germany	0.0	0.0
thereof exposure in covered bonds according to Article 129 Regulaton (EU) no. 575/2013	0.0	0.0

Distribution of cover pool assets

Total nominal value of cover pool assets by country/type

	Sovereign		Regional authorities		Local authorities		Other debtors		Total	
€m	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Federal Republic of Germany	151.7	193.2	640.3	338.7	2,016.2	1,377.0	737.8	973.9	3,546.0	2,882.8
Denmark	0.0	0.0	0.0	0.0	0.0	0.0	70.7	46.8	70.7	46.8
France	0.0	14.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	14.2
Canada	0.0	0.0	20.0	67.1	0.0	0.0	0.0	0.0	20.0	67.1
Latvia	0.0	0.0	0.0	0.0	104.7	88.7	0.0	0.0	104.7	88.7
Netherlands	147.0	157.7	0.0	0.0	0.0	0.0	0.0	0.0	147.0	157.7
Norway	50.0	62.5	0.0	0.0	0.0	0.0	0.0	0.0	50.0	62.5
Poland	0.0	50.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	50.0
United States of America	100.4	171.5	0.0	0.0	0.0	0.0	0.0	0.0	100.4	171.5
United Kingdom of Great Britain and Northern Ireland	252.2	318.0	0.0	0.0	0.0	0.0	0.0	0.0	252.2	318.0
Total	**701.3**	**967.1**	**660.3**	**405.8**	**2,120.8**	**1,465.8**	**808.5**	**1,020.7**	**4,291.0**	**3,859.3**

of which: guarantees from export credit agencies

€m	2020	2019
Federal Republic of Germany	151.7	193.2
Denmark	70.7	46.8
France	0.0	14.2
Canada	0.0	0.0
Latvia	0.0	0.0
Netherlands	147.0	157.7
Norway	50.0	62.5
Poland	0.0	0.0
United States of America	100.4	171.5
United Kingdom of Great Britain and Northern Ireland	252.2	318.0
Total	**771.9**	**963.9**

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

Other information

42 Average number of staff

Number	2020			2019		
	Male	Female	Total	Male	Female	Total
Full-time employees	1,768	710	2,478	1,653	681	2,334
Part-time and temporary employees	170	575	745	115	471	586
Total	**1,938**	**1,285**	**3,223**	**1,768**	**1,152**	**2,920**

43 Remuneration of Board members

€	2020	2019
Remuneration of active Board members		
Board of Management	5,232,631	6,041,170
Administrative Board	944,583	780,000
Remuneration paid to former Board members and surviving dependants		
Board of Management	3,815,136	3,440,445
Provisions for pension commitments to these persons	48,625,189	47,648,801

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

In the financial year 2020, variable remuneration elements in the amount of €2.8m (previous year: €2.5m) were committed to active members of the Board of Management, which are dependent on future performance.

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

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

The total benefits include deferred variable remuneration components from active members of the Board of Management in the amount of €2.4m and due to previous members of the Board of Management in the amount of €0.2m. Active members of the Board of Management are to receive an amount of €0.6m for financial year 2019, €0.6m for financial year 2018, €0.3m for financial year 2017, €0.4m for financial year 2016, €0.4m for financial year 2015 and €0.2m for financial year 2014.

44 Loans to board members

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

45 Post balance sheet events

No material events of particular significance occurred after the 2020 reporting date.

46 Recommendation regarding appropriation of net profit

The ECB is standing by its recommendation on the payment of dividends during the COVID-19 crisis. To maintain a solid capital base while providing the necessary support to the economy at the same time, the ECB recommends that companies refrain from paying dividends until 1 January 2021. The ECB only recently reiterated its expectation of a restrictive approach to dividend distributions, while at the same time allowing for the possibility of moderate dividend distributions in principle. Dividend distributions are to be suspended or limited until 30 September 2021. As a result, the Administrative Board will consider a proposal for the appropriation of profits taking the ECB's guidelines into account.

Seats on supervisory bodies

47 Notes to seats on supervisory bodies (as at 01.02.2021)

Dr. Georg Stocker (Chairman of the Board of Management from 01.01.2020)		
Chairman of the Supervisory Board (until 30.04.2020)	S Broker AG & Co. KG	Wiesbaden
Chairman of the Supervisory Board (until 30.04.2020)	S Broker Management AG	Wiesbaden

Dr. Matthias Danne (Member of the Board of Management until 01.07.2020; Deputy Chairman of the Board of Management from 02.07.2020)		
Member of the Supervisory Board (from 01.01.2020) Chairman of the Supervisory Board (from 15.01.2020)	Deka Investment GmbH	Frankfurt/Main
Member of the Supervisory Board (from 01.01.2020) Chairman of the Supervisory Board (from 15.01.2020)	Deka Vermögensmanagement GmbH	Frankfurt/Main
Chairman of the Supervisory Board	Deka Immobilien Investment GmbH	Frankfurt/Main
Chairman of the Supervisory Board	WestInvest Gesellschaft für Investmentfonds mbH	Düsseldorf
Deputy Chairman of the Supervisory Board	S-PensionsManagement GmbH	Cologne
Deputy Chairman of the Supervisory Board	Sparkassen Pensionskasse AG	Cologne
Chairman of the Supervisory Board	Sparkassen Pensionsfonds AG	Cologne
Managing Director	Deka Treuhand Erwerbsgesellschaft mbH	Frankfurt/Main

Manuela Better (Member of the Board of Management until 31.05.2020)		
Deputy Chairwoman of the Supervisory Board (until 31.05.2020)	Deka Investment GmbH	Frankfurt/Main
Deputy Chairwoman of the Supervisory Board (until 31.05.2020)	Deka Vermögensmanagement GmbH	Frankfurt/Main
Deputy Chairwoman of the Supervisory Board (until 03.02.2020) Member of the Supervisory Board (from 04.02.2020 until 29.02.2020)	Deka Immobilien Investment GmbH	Frankfurt/Main
Deputy Chairwoman of the Supervisory Board (until 29.02.2020)	WestInvest Gesellschaft für Investmentfonds mbH	Düsseldorf
Deputy Chairwoman of the Supervisory Board (until 31.05.2020)	S Broker AG & Co. KG	Wiesbaden
Member of the Supervisory Board (until 31.05.2020)	S Broker Management AG	Wiesbaden
Member of the Administrative Board (until 29.05.2020)	Deka Verwaltungsgesellschaft Luxembourg S.A. (until 14.05.2020: DekaBank Deutsche Girozentrale Luxembourg S.A.)	Luxembourg

Birgit Dietl-Benzin (Member of the Board of Management from 11.06.2020)		
Member of the Supervisory Board (from 03.06.2020 until 07.06.2020) Deputy Chairwoman of the Supervisory Board (from 08.06.2020)	Deka Investment GmbH	Frankfurt/Main
Member of the Supervisory Board (from 03.06.2020 until 09.06.2020) Deputy Chairwoman of the Supervisory Board (from 10.06.2020)	Deka Vermögensmanagement GmbH	Frankfurt/Main
Member of the Supervisory Board (from 03.06.2020) Deputy Chairwoman of the Supervisory Board (from 04.06.2020)	Deka Immobilien Investment GmbH	Frankfurt/Main
Member of the Supervisory Board (from 03.06.2020) Deputy Chairwoman of the Supervisory Board (from 04.06.2020)	WestInvest Gesellschaft für Investmentfonds mbH	Düsseldorf
Member of the Supervisory Board (from 09.06.2020 until 18.06.2020) Deputy Chairwoman of the Supervisory Board (from 19.06.2020)	S Broker AG & Co. KG	Wiesbaden
Member of the Supervisory Board (from 09.06.2020)	S Broker Management AG	Wiesbaden
Member of the Administrative Board and Chairwoman of the Audit Committee	FMS Wertmanagement AöR	Munich

Daniel Kapffer (Member of the Board of Management)		
Member of the Supervisory Board (until 10.05.2020) Chairman of the Supervisory Board (from 11.05.2020)	S Broker AG & Co. KG	Wiesbaden
Member of the Supervisory Board (from 01.05.2020 until 10.05.2020) Chairman of the Supervisory Board (from 11.05.2020)	S Broker Management AG	Wiesbaden
Deputy Chairman of the Supervisory Board	bevestor GmbH	Frankfurt/Main
Member of the Administrative Board (until 04.06.2020) Deputy Chairman of the Administrative Board (from 05.06.2020)	Deka Verwaltungsgesellschaft Luxembourg S.A. (until 14.05.2020: DekaBank Deutsche Girozentrale Luxembourg S.A.)	Luxembourg

Martin K. Müller (Member of the Board of Management)		
Chairman of the Administrative Board	Deka Verwaltungsgesellschaft Luxembourg S.A. (until 14.05.2020: DekaBank Deutsche Girozentrale Luxembourg S.A.)	Luxembourg
Member of the Supervisory Board	Sparkassen Rating und Risikosysteme GmbH	Berlin
Managing Director	Deka Treuhand Erwerbsgesellschaft mbH	Frankfurt/Main

48 Notes to the Board members of DekaBank Deutsche Girozentrale (as at 31.01.2021)

Board of Management

Dr. Georg Stocker
Chairman of the Board of Management

Dr. Matthias Danne
Member of the Board of Management
(until 01.07.2020)
Deputy Chairman of the Board of Management
(from 02.07.2020)

Manuela Better
Member of the Board of Management
(until 31.05.2020)

Birgit Dietl-Benzin
Member of the Board of Management
(from 11.06.2020)

Daniel Kapffer
Member of the Board of Management

Martin K. Müller
Member of the Board of Management

Administrative Board

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

Walter Strohmaier
Member
First Deputy Chairman
Federal Chairman and Chairman of the Board of
Management of Sparkasse Niederbayern-Mitte

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

Additional representatives elected by the Shareholders' Meeting

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

Michael Breuer
President of the Rhineland Savings Banks
and Giro Association

Ingo Buchholz
Chairman of the Board of Management
of Kasseler Sparkasse

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

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

Ralf Fleischer
Chairman of the Board of Management of
Stadtsparkasse München

Andreas Fohrmann
Chairman of the Board of Management of
Sparkasse Südholstein

Michael Fröhlich
(from 01.01.2021)
Chairman of the Board of Management of
Sparkasse Bielefeld

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

Melanie Kehr
(from 01.01.2021)
Member of the Executive Board of Kreditanstalt
für Wiederaufbau

Dr. Christoph Krämer
(until 31.12.2020)
Chairman of the Board of Management
of Sparkasse Iserlohn

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

Ludwig Momann
Chairman of the Board of Management
of Sparkasse Emsland

Tanja Müller-Ziegler
Member of the Board of Management of Berliner
Sparkasse

Dr. Ulrich Netzer
(until 31.12.2020)
President of the Savings Banks Association
Bavaria

Katrin Rohmann
(from 01.08.2020)
Freelance auditor

Prof. Dr. Ulrich Reuter
(from 01.01.2021)
President of the Savings Banks Association
Bavaria

Frank Saar
Member of the Board of Management of
Sparkasse Saarbrücken

Peter Schneider
President of the Savings Banks Association
Baden-Württemberg

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

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

Alexander Wüerst
Chairman of the Board of Management of
Kreissparkasse Cologne

Employee representatives appointed by the Staff Committee

Michael Dörr
Chairman of the Staff Committee of DekaBank
Deutsche Girozentrale

Edwin Quast
(from 10.06.2020)
First Deputy Chairman of the Staff Committee of
DekaBank Deutsche Girozentrale

Erika Ringel
(until 09.06.2020)
Member of the Staff Committee
of DekaBank Deutsche Girozentrale

Representatives appointed by the Federal Organisation of Central Municipal Organisations

Dr. Uwe Brandl
(from 10.07.2020)
Mayor of the City of Abensberg and
1st Vice President of the German Association of
Towns and Municipalities

Helmut Dedy
Managing Director of the German Association
of Cities

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

Roland Schäfer
(until 09.07.2020)
Mayor of the City of Bergkamen and 1st Vice
President of the German Association of Towns
and Municipalities

Assurance of the Board of Management

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

Frankfurt/ Main, 26. February 2021

DekaBank
Deutsche Girozentrale

The Board of Management

Dr. Stocker Dr. Danne Dietl-Benzin

Kapffer Müller

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

Independent Auditor's Report

To DekaBank Deutsche Girozentrale AöR, Berlin/Frankfurt am Main

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

Opinions

We have audited the annual financial statements of DekaBank Deutsche Girozentrale AöR, Berlin/Frankfurt am Main, which comprise the balance sheet as at 31 December 2020, and the income statement for the financial year from 1 January to 31 December 2020 and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of DekaBank Deutsche Girozentrale AöR for the financial year from 1 January to 31 December 2020. In accordance with German legal requirements, we have not audited the content of those components of the management report specified in the "Other Information" section of our auditor's report.

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to financial institutions and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2020, and of its financial performance for the financial year from 1 January to 31 December 2020, in compliance with German legally required accounting principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of those components of the management report specified in the "Other Information" section of the auditor's report.

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

Basis for the Opinions

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

Key Audit Matters in the Audit of the Annual Financial Statements
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2020. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

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

THE FINANCIAL STATEMENT RISK

As at 31 December 2020, DekaBank recognised a trading portfolio under assets of EUR 34.8 billion. At 39.6% of total assets this represents a material item on the assets side for DekaBank and contains securities and derivatives, for which there is a quoted price on an active market and those for which a valuation method based on observable and/or unobservable market data was used.

The financial statement risk could lie in particular in there being no appropriate market prices, valuation methods and models, as well as valuation parameters incorporated therein, used for the determination of fair values.

OUR AUDIT APPROACH

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

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

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

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

We carried out, inter alia, the following substantive audit procedures for portfolios of securities and derivatives selected based on risk as at 31 December 2020:

- Carrying out an independent price verification in the event that there is a quoted price on an active market.
- Where there are no quoted prices on an active market, we performed a re-evaluation using independent valuation methods, parameters and models based on risk.
- Determination and recognition of value adjustments for fair value measurement.

OUR OBSERVATIONS

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

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

THE FINANCIAL STATEMENT RISK

The balance sheet item "trading portfolio" (liabilities) represents 40.8% (EUR 35.8 billion) of DekaBank's total equity and liabilities, thus constituting a material item on its balance sheet; it includes financial liabilities held for trading from the issuance of certificates that are valued on the basis of observable and unobservable inputs.

The financial statement risk could lie in particular in there being no appropriate market prices, valuation methods and models, as well as valuation parameters incorporated therein, used for the determination of fair values.

OUR AUDIT APPROACH

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

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

– the procurement and validation or independent verification of quoted prices as well as observable and unobservable market data,
– the validation of the valuation methods and models,
– the fair value measurement of certificates

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

We carried out, inter alia, the following substantive audit procedures for certificates selected based on a risk-oriented approach as at 31 December 2020:

– Risk-based re-evaluation using independent valuation methods, parameters and models. In this process, we covered the significant product-model combinations used by DekaBank.
– Assessment of the discount curves used for the valuation of certificates.

OUR OBSERVATIONS

The valuation methods and models used by DekaBank for the valuation of financial liabilities held for trading from the issuance of certificates are appropriate. The parameters incorporated were properly derived.

Determination of specific valuation allowances on receivables from customers arising from aircraft and real estate financing (retail and hotel real estate)
The accounting policies are disclosed in the notes to the financial statements in note 2.

THE FINANCIAL STATEMENT RISK

The Bank discloses under receivables from customers, among others, receivables from transport financing of EUR 3.9 billion, which includes receivables from aircraft financing of EUR 2.9 million, as well as receivables from real estate financing of EUR 10.3 billion, which includes receivables from retail and hotel real estate. As at 31 December 2020, the Bank has recognised impairment loss allowances on receivables and certain securities as well as additions to loan loss provisions in the amount of EUR 185.0 million.

The financial impact of the COVID-19 pandemic has differing effects on the counterparties within the portfolio of transport finance. In particular, the aviation industry is strongly affected by the effects (especially due to the decline in the general willingness to travel). Due to the extensive lockdown measures, the hotel sector and store-based retail is also strongly affected by this development.

The determination of specific valuation allowances on receivables from customers requires judgement. For the calculation of the specific valuation allowances on financing the aforementioned portfolios, the Company has to estimate the cash flows that it expects from contractual interest and principal repayments as well as from the liquidation of loan collateral provided. The cash flows are estimated taking into account the expected development of key value-determining assumptions and parameters. These include, in particular, the future development of the respective sales markets as well as the expected recoverable value of the collateral. These estimates are subject to uncertainty.

Inaccurate assumptions regarding the amount of the expected cash flows or the liquidation of the loan collateral provided result in the receivables being inaccurately measured and thus an appropriate level for counterparty credit risks not being taken into account. In view of this, it was of particular importance for our audit that the assumptions regarding the parameters stated as significant for the valuation were made in accordance with the applicable accounting policies.

OUR AUDIT APPROACH

Based on our risk assessment and evaluation of the risks of material misstatement, we used both control-based and substantive audit procedures for our audit opinion.

Within the scope of control-based audit procedures, we evaluated the implementation and effectiveness of the relevant controls, which the Bank had established to ensure the adequacy of specific valuation allowances on aircraft and real estate financing (retail and hotel real estate).

In particular, we examined the appropriateness of the calculated specific valuation allowances on receivables from aircraft and real estate financing (retail and hotel real estate) using deliberate sampling of individual exposures from the perspective of materiality and risk. In particular, we checked the appropriate estimation of expected cash flows, taking into account the expected development of key valuation assumptions and parameters. These include, in particular, the review of the appropriate consideration of the future development of the respective markets and the expected lease payments or cash flows of financed exposures and the expected recoverable value of the collateral. For the purposes of auditing the recoverability of the underlying collateral, we used appraisals from independent experts for our opinion as well as publicly available data to assess whether the assumptions used for the expert opinions were properly derived. We also confirmed the competence, professional skills and impartiality of the experts based on enquiries, evaluation of the technical quality of the expert opinions and by using publicly available information on the experts engaged.

OUR OBSERVATIONS

The assumptions underlying the determination of the amount of specific valuation allowances on aircraft and real estate financing (retail and hotel real estate) were properly selected and are consistent with the accounting policies to be used for calculating specific valuation allowances.

Other information

Management respectively Administrative Board are responsible for the other information. The other information comprises the separate non-financial report referred to in the management report. The other information also includes the remaining parts of the annual report.

The other information does not include the annual financial statements, the management report information audited for content and our auditor's report thereon.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

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

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

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

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

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

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

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

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

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

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

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

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

Other Legal and Regulatory Requirements

Report on Assurance in accordance with Section 317 (3b) HGB on the Electronic Reproduction of the Annual Financial Statements and the Management Report Prepared for Publication Purposes

We have performed assurance work in accordance with Section 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the annual financial statements and the management report (hereinafter the "ESEF documents") contained in the file that can be downloaded by the issuer from the electronic client portal with access protection, dekabank_JA+LB_ESEF-2020-12-31.zip (SHA256-Hashwert: 3ba681991d654995ef2b3cc2dc9e124fca1ac8bd0661fb52f56c5580903ea0ea) and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the annual financial statements and the management report contained in the above-mentioned electronic file and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying annual financial statements and the accompanying management report for the financial year from 1 January to 31 December 2020 contained in the "Report on the Audit of the Annual Financial Statements and of the Management Report" above.

We conducted our assurance work of the reproduction of the annual financial statements and the management report contained in the above-mentioned electronic file in accordance with Section 317 (3b) HGB and the Exposure Draft of the IDW Assurance Standard: Assurance in accordance with Section 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410). Accordingly, our responsibilities are further described below. Our audit firm has applied the IDW Standard on Quality Management 1: Requirements for Quality Management in Audit Firms (IDW QS 1).

The Company's management is responsible for the preparation of the ESEF documents including the electronic reproduction of the annual financial statements and the management report in accordance with Section 328 (1) sentence 4 item 1 HGB.

In addition, the Company's management is responsible for the internal controls they consider necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format.

The Company's management is also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited annual financial statements and audited management report as well as other documents to be published to the operator of the German Federal Gazette [Bundesanzeiger].

The Administrative Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgement and maintain professional scepticism throughout the assurance work. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assessment of the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e. whether the electronic file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815 on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited annual financial statements and the audited management report.

Further Information pursuant to Article 10 of the EU Audit Regulation
We were elected as auditor at the Annual General Meeting on 2 April 2020. We were engaged by the Administrative Board on 15 June 2020. We have been the auditor of DekaBank Deutsche Girozentrale AöR, Berlin/Frankfurt am Main, without interruption since financial year 2013.

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

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

We performed a review of the interim (half-year) financial report, voluntary annual audits of subsidiaries and project-based quality assurance. Furthermore, we also performed other assurance services, including custody account audits/audits pursuant to the German Securities Trading Act [WpHG], an assurance engagement pursuant to ISAE 3402, issuing of a letter of comfort as well as other assurance services required by supervisory law and tax advisory services in respect of insurance tax obligation, which were approved by the Audit Committee.

German Public Auditor Responsible for the Engagement

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

Frankfurt am Main, 3 March 2021

KPMG AG
Wirtschaftsprüfungsgesellschaft

[signature] Beier	[signature] Haider
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Glossary

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

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

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

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

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

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

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

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

Gross loan volume
In accordance with the definition set out in section 19 (1)KWG, the gross loan volume includes debt instruments issued by public authorities and bills of exchange, amounts due from banks and customers, bonds and other fixed-interest securities, shares and other non fixed-interest securities including fund units, equity investments and shares in affiliated companies, equalisation claims against the public sector, items for which lease agreements have been concluded as the lessor, irrespective of their recognition in the balance sheet, other assets where they are subject to counterparty risk, sureties and guarantees, irrevocable lending commitments as well as market values of derivatives. In addition, the gross loan volume includesunderlying risks from derivative transactions, transactions for the purposes of covering guarantee payments on guarantee funds, as well as the volume of off-balance sheet counterparty risks.

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

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

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

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

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

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

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

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

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

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

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

Gender clause

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

Disclaimer

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

Due to rounding, numbers and percentages presented in this report may not add up precisely to the totals provided.

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