DekaBank
Deutsche Girozentrale

Annual financial statements 2018

Finanzgruppe

Deka

Content

Management report

At a glance

DekaBank, the *Wertpapierhaus* for the savings banks, continued in its centenary year to work on the areas that have been at the heart of its activities since launching the *Wertpapierhaus* strategy: tailoring its business model to savings banks, savings bank customers and institutional investors, and striving to be a valued investment partner. With this clear sense of direction, the Deka Group achieved a satisfactory economic result of €451.8m (previous year: €448.9m) despite a challenging market environment. Income increased slightly to a total of €1,509.0m (previous year: €1,494.1m). Expenses amounted to €1,057.2m in total, representing a moderate increase compared with the previous year (€1,045.2m).

The Deka Group was unable to fully escape the cyclical effects arising from the negative performance of almost all asset classes in 2018. At €275.9bn, the Deka Group's total customer assets were therefore slightly down on the level recorded at the end of 2017 (€282.9bn). This was despite net sales of €11.8bn. Net sales fell short of the high prior-year figure (€25.7bn), partly due to a one-off effect in institutional customer business. The positive sales performance was accompanied by market-induced negative investment performance at the reporting date, distributions (from which customers benefited) and certificate redemptions.

The DekaPro programme of initiatives, which was launched at the beginning of the reporting year, aims to promote growth and efficiency by making the Deka Group more customer-centric. All aspects of the programme gathered pace over the course of the year. Enhancing processes will enable them to be integrated even more smoothly into the workflows of savings banks, their customers and institutional investors. This trend is also being supported by increasing automation using innovative technologies such as robotics, machine learning, artificial intelligence and blockchain.

Confirmation of the high quality of Deka's products and solutions came from Finanzen Verlag, which named Deka as their "Fund Manager of the Year" for 2018 – the first time Deka has won this accolade – as well as from the 2018 Capital-Fonds-Kompass awards, where Deka was awarded the maximum five-star rating.

Thanks to its robust financial position, which is also reflected in a good credit rating, the Deka Group is able to fully lock on to its strategic path – DekaPro – and lay the foundation to create lasting high value added in the years to come. At the end of 2018, the Common Equity Tier 1 capital ratio (fully loaded) stood at 15.4% and the leverage ratio (fully loaded) at 4.6%. The liquidity coverage ratio was 149.8% at year-end 2018, comfortably above the minimum requirement of 100% applicable since the start of 2018. At 42.1%, utilisation of risk capacity remained at a non-critical level.

Information about the Deka Group

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.

Deka Group profile and strategy

DekaBank is the *Wertpapierhaus* for the savings banks. The Deka Group is made up of DekaBank and its subsidiaries. Through its asset management and banking activities, it acts as a service provider for the investment, administration and management of assets, supporting savings banks, their customers and institutional investors at every stage in the investment process. It also offers comprehensive advice and solutions both to the savings banks and to institutional customers outside the *Sparkassen-Finanzgruppe* on investing, liquidity and risk management, and refinancing.

Legal structure and corporate governance

DekaBank Deutsche Girozentrale is a German federal institution incorporated under public law with registered offices in Frankfurt am Main and Berlin. It is wholly owned by the German savings banks. 50% of the shares are held via Deka Erwerbsgesellschaft mbH & Co. KG. The savings banks 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).

The Deka Group strictly adheres to the principles of good and responsible corporate management. The corporate governance concept for the management and supervision of the Group ensures that the responsibilities of board and committees are clearly defined and enables efficient decision-making processes.

Corporate governance

DekaBank is managed collectively by the Board of Management, which continued to comprise five members as at the 2018 reporting date. Responsibility for Human Resources & Organisation was transferred from Martin K. Müller to Michael Rüdiger as from 1 January 2018. Responsibilities as at the end of 2018 were thus as follows:

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

Michael Rüdiger announced in early December 2018 that he would be leaving the Deka Group during 2019. He is leaving at his own request for personal reasons. The Administrative Board will decide in due course on his successor as CEO and on a new appointment to the Board of Management.

The members of the Board of Management are supported by in-house management committees in an advisory capacity. In addition, DekaBank actively incorporates representatives of the *Sparkassen-Finanzgruppe* into its decision-making process via three specialist advisory boards, which advise the Board of Management, and six regional sales committees. The Board of Management uses their expertise and proximity to the market 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 Remuneration Supervision Committee and a Risk and Credit Committee. The German Federal Minister of Finance is responsible for general governmental supervision.

Sustainable governance and non-financial statement

The Deka Group's sustainability strategy is an integral part of its corporate strategy. Deka has committed itself to national and international standards (UN Global Compact, Equator Principles and the German Sustainability Code) and is constantly improving its portfolio of sustainable products and services. As a signatory to the Frankfurt Declaration, it also supports the creation of sustainable infrastructures in the financial sector and is actively accompanying the discussion of the European Commission's Action Plan: Financing Sustainable Growth. Since the reporting year, it has additionally been an official supporter of the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD's primary aim is to develop common standards for the disclosure of companies' climate-related financial risks. The Deka Group supports the United Nations Sustainable Development Goals, among other things by funding relevant projects. These include electricity generation from renewable energy, transport or storage of renewable energy, and modernisation of production facilities to significantly reduce CO2. A corresponding whitelist was created in the 2018 financial year and the blacklist was considerably expanded.

The annual sustainability report provides detailed information on the sustainable management of 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 for the environmental, social and employee concerns that are significant to the Group's business model, as well as for the upholding of human rights and the combating of bribery and corruption.

See also: www.deka.de/deka-group/sustainability

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 (www.deka.de/deka-group/sustainability), where it will remain accessible for at least ten years.

Business model

The business model of the Deka Group is characterised by close collaboration between asset management and banking business. The Group's asset management products comprise securities funds, real estate funds, credit funds and capital markets certificates, together with the associated asset management services for private and institutional investors. Such services include investment fund support for asset managers and support for institutional customers in their asset, capital, liquidity and risk management. In this regard, the Deka Group acts as finance provider, issuer, structurer, trustee and depositary (custodian bank).

In addition to asset management activities in the narrower sense, the Deka Group also provides the execution of securities trading, custody accounts, asset servicing and depositary services. The range of advisory and other services for asset management purposes, which can be used by savings banks and other institutional customers, encompasses the bank's role as a liquidity and collateral platform, its securities lending services, and support with the purchasing and settlement of securities and derivatives, including clearing.

The Deka Group also offers supplementary services such as market analyses, collateral agreements and regulatory compliance (including market conformity tests and trade repository reporting).

In securities funds and real estate funds, the Deka Group primarily earns commission income in the form of management and transaction fees. Subject to regulatory requirements, some of this income is passed on as an "association payment" 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 the Capital Markets business division and Treasury operations.

Deka Group strategy

Strategic objectives

The Deka Group's strategy is geared towards supporting the savings banks with their important role in helping German households build capital and with all issues relating to the securities investments of retail and corporate customers. This encompasses branch and internet sales, lump-sum investments, asset management and savings plans, training measures and the standardisation of the sales management process. The Deka Group also offers customised investment products for institutional customers in Germany and other countries, as well as advisory and infrastructure services to enable them to meet their business objectives safely and efficiently in a challenging market and regulatory environment.

With this approach, the Deka Group is positioning itself as a customer-centric *Wertpapierhaus* for the savings banks. At every level and in every field, it gears its services and workflows to the needs and processes of customers. This constantly refined promise of performance is backed up by the strengths of an integrated business model that is founded on both asset management and banking.

The DekaPro programme combines initiatives aimed at the growth-oriented further development of the retail and institutional business, the improvement of value added, a more flexible cost structure, and the digitalisation of customer interfaces, products and processes. Launched at the beginning of 2018, this programme of initiatives sets the direction for the Deka Group's strategic and operational focus in the coming years. With DekaPro, the Deka Group is investing in a robust, increasingly digitalised business model with long-term viability and preserving the balance between focused growth, performance orientation and efficiency.

Priorities in the 2018 financial year

Customer centricity

DekaPro ingrains the customer-centric orientation more deeply in the business model and organisation as a whole. The relevant customer segments for this approach are, firstly, the savings banks with their requirements for proprietary business, as well as their end customers. Individual customers, high net worth private clients and – closely related to these – commercial and corporate customers of the savings banks also constitute an important target group in this regard. Secondly, the Deka Group supports institutional customers. Besides the savings banks, these include insurance companies, pension funds, foundations, family offices, corporates in various sectors and the domestic public sector. Deka aims to acquire and serve these customers in partnership with the savings banks.

DekaPro aligns the Deka Group's advice, products, services and internal processes even more rigorously with the expectations, needs and processes of the relevant customer groups. All DekaPro initiatives are consistently thought out from the customer's perspective, leading to the improvement, streamlining and partial automation of core processes along with the partial realignment of Deka's product and service range. DekaPro also involves investing in areas that will be important to customers in the future and driving these agendas forward with a high pace of development. This includes, for example, creating a multichannel-oriented offering that works seamlessly across physical and "internet branches", or providing digital asset management. These efforts will allow the Deka Group to realise growth potential in its business with savings banks, savings bank customers and institutional investors.

The importance of customer-centricity is also reflected in closer customer relationships. Formats, both tried-and-tested and newly developed, are helping to expand business in the savings bank sector and beyond. At the Sustainability Day, for example, Deka informed insurance companies and pension funds about the importance of sustainability concerns in asset allocation. The Family Office Radar discussed fund taxation among other topics.

The Deka Group won various important awards in the reporting year, underscoring the fact that it is already highly appreciated by its customers. Deka Investment was chosen as "Fund Manager of the Year" (Finanzen Verlag) for the first time in 2018, scoring highly for having the best product range of Germany's major fund providers. Achieving first place in the overall ratings is confirmation of the consistent good service provided by Deka's fund management. The 2018 Capital-Fonds-Kompass awards again assigned the maximum five-star rating to Deka Investment. Deka was one of only four firms to receive the maximum rating in the past year. Individual Deka securities and real estate funds also achieved outstanding results at the €uroFund Awards and Scope Investment Awards. Deka Investment's Master KVG offering was given a score of 1 and an outlook of 1+ ("excellent") by the rating agency Telos in the reporting year. The improved rating cements Deka's position as a leading solutions provider under the *Deka Institutionell* brand.

Growth

The Deka Group aims to realise growth potential with savings banks, savings bank customers and institutional investors as a consistently customer-centric organisation.

Exploiting potential in retail business

The Deka Group helps savings banks to expand the whole of their securities business and leverage potential in securities business with retail customers. Working closely with the securities committees of the regional savings banks, sales managers and customer advisers, Deka seeks to attract savings bank customers who have so far limited themselves to deposit and credit products and to convince them of the benefits of securities investment, turning them into long-term securities customers. It also aims to help savings banks make greater use of the existing fund investor customer base with product initiatives and advice. Partly thanks to these initiatives, customers have opened more than 160 thousand new custody accounts in the space of a year, and net sales have performed positively in the retail business. This also reveals the considerable potential that remains, especially given the fast-growing monetary assets of savings bank customers.

In terms of products, the focus includes fund savings plans. After strong growth in the previous year, the number of savings plans increased again by more than 400 thousand in 2018. In lump-sum investments, the *Deka-BasisAnlage* (Deka Basic Investment) funds of funds, along with themed funds such as *Deka-Dividendenstrategie*, played a key role. Index funds (ETFs) were also more extensively incorporated into the sales offering to add to the investment mix and complement actively managed mutual funds, creating a comprehensive securities offering. Asset management concepts and robo-advisory investing combine the benefits of index funds and active fund management.

The initiatives to fully exploit the potential are accompanied by greater standardisation of investment advice, meaning considerably reduced outlay, substantially improved quality and more reliable processes for the savings banks. The modular securities concept developed for this purpose takes a customer-centric approach tailored to the sales management process of the savings banks. Following a successful pilot phase, training of Deka sales directors and the roll-out of the technical solution began at the end of 2018.

Systematic training on the securities business is continuously provided to market managers, sales managers and savings bank advisory staff.

Deka also helps the savings banks approach different end customer groups in different ways and is already working with more than 230 savings banks as part of its private banking initiative. It provides services, advisory support and special investment solutions for advisers working in private banking. New strategies for healthcare professionals have also been added.

Improving market position in institutional business

Strengthening the Deka Group's competitiveness and market position in the institutional business is another big priority. Deka is looking especially at the potential outside the *Sparkassen-Finanzgruppe* that it can leverage together with the savings banks. Having comprehensively established customers' needs, Deka formulated a new plan for institutional sales in the reporting year. This also serves as the basis for a modular catalogue of services and for customer relationship management. Individual service components are prioritised to create a strategic focus that lines up with customer requirements. Sales efforts are focusing on institutional mutual funds and special funds.

Growth in our institutional business was driven not least by platform solutions such as Deka Easy Access. This analysis, management and dealing tool was already employed by over 150 savings banks at the end of 2018. Systematically conceived from the end user's perspective, the tool allows Treasury departments at the savings banks to conveniently manage and analyse portfolios with up-to-the-minute information. As an additional service, Deka introduced the Deka Research Hub in the reporting year. This helps savings banks with lending decisions by providing extensive information on issuers' creditworthiness as well as a sustainability screening. Beyond Deka Easy Access, Deka plans to expand and integrate infrastructure services in the banking business, taking full advantage of all the opportunities of digitalisation. Through access to centrally provided services with a high level of value added – such as *Deka Treasury-Kompass*, the securities and collateral platform (including collateral management), derivatives clearing and trade repository reporting – savings banks and other institutional customers can reduce the cost of compliance with regulatory requirements.

Efficiency

The Deka Group is using various measures to ensure it performs its services efficiently and thus with lasting competitiveness, taking advantage of the opportunities provided by digital technology.

Growing with optimised value added and cost structure

Numerous measures forming part of DekaPro are designed to handle a growing volume of business with stable resources and to manage challenging regulatory requirements with an appropriate level of expenditure.

The standardisation of the Bank's internal processes, including greater use of automation, is set to noticeably reduce complexity and improve the cost structure in the coming years. Savings Bank Sales is using interdisciplinary teams to modify core processes, creating an even better fit with workflows in the savings banks.

There will also be improvements to the organisational structure and strategic direction of subsidiaries. As part of the strategic realignment, Landesbank Berlin Investment GmbH (LBB-INVEST) was renamed Deka Vermögensmanagement GmbH in the reporting year. The company's head office is in Frankfurt/Main. The company acts as a centre of expertise for asset management products, which are gradually being combined under its umbrella, as well as for boutique funds. Deka Investment GmbH is thus focussing on the fundamental and quantitative management of mutual funds, special funds and ETFs as well as on asset servicing. The equity and bond funds previously housed within LBB-INVEST have been transferred to Deka Investment GmbH.

In Luxembourg, DekaBank Deutsche Girozentrale Luxembourg S.A. is largely concentrating on producing asset management products and services. It will be converted into a branch of DekaBank to achieve even closer integration with Frankfurt/Main. Classic banking activities such as the lending business, capital market business and direct customer business will be discontinued, allowing the return of the company's banking licence.

Digitalising customer interfaces, products and processes

The digital transformation in the Deka Group is concentrated, firstly, on interfaces with savings banks and retail and institutional customers along with the products and services available for these groups. Deka is also concentrating on digitalising its internal processes. Digitalisation therefore has major overlaps with other DekaPro initiatives as it is essential to the customer-centric development of the Deka product and service portfolio and to efficiency along the value chain. A digitalisation circle and expert group for digitalisation have been created to coordinate activities and drive the process of digital transformation.

Digitalising the customer interface

The products and services developed and provided by Deka for the multichannel sale of securities had already been integrated into the "internet branches" of more than 300 savings banks by the end of 2018. The future aim is to provide savings banks and their customers with a securities offering that enables every step from selection to subscription to take place seamlessly across different media. In building up online securities business and expanding the associated product packages, Deka takes account of the needs of both execution-only customers and the savings banks' multichannel customers. The savings banks' branch-based approach is thus perfectly dovetailed with multichannel banking. Ongoing development has brought a range of improvements for end customers over the past year, including extensions to the custody account dashboard and new ways for savings bank customers to contact customer advisers. The incorporation of stocks and shares functions into the *Sparkassen-Finanzgruppe* app goes hand in hand with the expansion of online execution processes. An attractive range of information on products and market developments helps investors take decisions.

At the subsidiary bevestor GmbH, an interdisciplinary team of experienced experts in securities and digital technology are developing solutions that offer private investors simple and transparent ways to invest and manage assets digitally. An integrated investment assistant helps users assess and choose investments themselves, for example. Model portfolios with different risk profiles are provided as a basis for individual investment along with three actively managed funds of funds. The business magazine Capital tested robo-advisory services in 2018 and awarded bevestor's digital offering for customers the top score of five stars. S Broker expanded its range of savings plans in 2018, also to include ETF savings plans from Deka. It also increased order numbers, partly through campaigns allowing investors to buy for free. S Broker is also of growing importance to the modular implementation of the Deka Group's custody account strategy.

Digitalising products and processes

To accelerate the digital transformation, Deka created the Open Digital Factory during the reporting year. Here, interdisciplinary, agile teams from IT and other departments develop and test innovative digital solutions. They have focused initially on robotic process automation (RPA). At the end of 2018, more than 40 software robots were already being used to automate processes and make them more robust, which has considerably reduced throughput time. The factory has also been working on developing the first machine learning prototypes, for instance to process standard transactions using chatbots. The use of artificial intelligence (AI) for forecasting models has also been successfully tested, for instance to trigger adjustments to asset allocation. The third area of emphasis in the reporting year was the use of blockchain technology. For example, Deka has developed a digital promissory note loan together with other banks. Other digital key technologies such as cloud computing and DevOps are in the pilot stage.

In terms of products, Deka's emphasis has been on further development of the *Internetfiliale 6.0* ("internet branch 6.0") as well as platform and portal solutions for institutional customers. One example in 2018 was the successful introduction of a web application for *Deka Treasury-Kompass*. This has further improved the savings banks' ability to record and analyse information. Deka Investment has also digitalised the entire process of creating and amending investment guidelines. The new system went live in the third quarter of 2018. Behind the user-friendly front end, downstream implementation algorithms automatically assign all standard requirements in the target system.

Organisational structure
The Deka Group's activities are organised into five business divisions. Deka's 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, focuses on providing banking services for asset management. Despite the clear separation at Board level between banking business and asset management, the business divisions work closely both with one another and with the sales departments and corporate centres. They form the basis for the Deka Group's segment reporting under IFRS 8.

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

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),
- products relating to fund-based asset management, funds of funds and fund-linked 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 is supplemented by bespoke and standardised securities services, for which the division works closely with the Asset Management Services business division.

Products and solutions are marketed under the Deka Investments, Private Banking and Deka Institutionell brands.

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

Asset Management Real Estate business division
The Asset Management Real Estate business division offers real estate investment products for personal and institutional investors. It also offers credit funds and is an important partner for the savings banks in commercial property investment. 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.

Its 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.

Products offered by the division include open-ended real estate mutual funds as well as special (i.e. private) funds with either an open-ended or closed-ended structure, single-investor real estate funds, real estate funds of funds, club deals and credit funds that invest in real estate, infrastructure or transport financing. As part of the *Deka Immobilien-Kompass* initiative, the savings banks and other institutional investors are also offered an extensive modular service package aimed at real estate fund investment.

The division has set itself the target of expanding its market position in both retail and institutional business while maintaining strict compliance with quality and stability commitments.

Asset Management Services business division

The Asset Management Services business division provides banking services for asset management. The services range from supporting the sales departments with digital multichannel management to managing custody accounts for customers and providing custodial services for investment funds.

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

The Digital Multichannel Management subdivision develops and implements digital solutions for securities business in the "internet branch" of the savings banks, in line with the savings banks' multichannel strategy. In the retail segment, it also takes legal responsibility for the management of DekaBank custody accounts. A multi-platform online securities offering, including stock exchange and securities information tools, is made available to the savings banks, using DekaNet as a centralised information and sales platform. DekaNet also offers the opportunity to achieve greater process efficiency through automation solutions. Its services are supplemented with those provided by S Broker, whose solutions likewise allow the savings banks to realise multichannel sales. *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 "bevestor" digital development platform produces innovative solutions for online securities business.

The division has set itself the objective of continuing to develop the digital channel into a persuasive offering for online securities investment, trading solutions and digital asset management, so as to make an important contribution to growth in the retail customer business. The depositary business also aims to be clearly positioned in the market and responsive to the rising trend in mutual funds, both among Deka Group investment managers and via third-party mandates.

Capital Markets business division

The Capital Markets business division is the central product, solution and infrastructure provider in the Deka Group's customer-driven capital market business, and also acts as a service provider and driver of innovation in this area. As such, the division provides the link between customers and the capital markets. The Capital Markets business division offers investment solutions to both retail and institutional customers and helps customers to put their asset management decisions into practice.

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

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

- The Collateral Trading & Currency unit brings together securities lending products, securities repurchase transactions and customer-oriented currency trading.

- The Trading & Structuring unit 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 issues of capital market products (debt securities and certificates). The strategic investments comprise the securities investments of Deka Group that do not form part of the liquidity reserve.
- The Commission Business unit executes trades in securities and exchange-traded derivatives in its own name on behalf of third parties.

The division aims to offer strategically significant functions (including access to capital markets and (central) counterparties) to savings banks and other institutional customers as a solution and infrastructure provider while making use of synergies and economies of scale. It responds to regulatory requirements by optimising the business portfolio on an ongoing basis and by efficiently managing regulatory capital requirements.

Financing business division

The activities of the Financing business division are carried out within two subdivisions.

The Specialised Financing subdivision concentrates on aircraft and ship financing (transport financing), on energy, grid, utilities and public infrastructure projects (infrastructure financing), on financing covered by export credit agencies, and on financing the public sector. It also has a leading position in the funding of German savings banks across all maturity ranges. 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. Legacy business continues to be reduced in a manner that safeguards assets.

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

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*.

Due to considerations relating to balance sheet structure, the division is seeking to expand new business in the defined core segments and asset classes. It also aims to cement its position as a quality leader in liquid markets and as a sought-after financing partner for the most important international real estate investors. DekaBank continues to act in its role as a refinancing partner for the savings banks.

Sales

Savings Banks Sales & Marketing

Savings Banks Sales & Marketing uses a multichannel approach to focus on comprehensive sales support for the savings banks in their business with retail and commercial customers.

There is a clear division of tasks in market cultivation: The savings banks have sole responsibility for directly contacting, advising and serving retail customers, while the Deka Group provides the products and services they need to do so. Deka therefore also aims its marketing activities directly at end customers so as to nurture demand for the savings banks' services. Sales Management, Marketing and Private Banking systematically analyses the needs of customers and savings banks as well as competitor and market developments. It uses its findings to develop forward-looking sales and marketing measures to support the savings banks. The Product and Market Management unit looks after all matters in relation to the funds, certificates and wealth management solutions on offer and in relation to private and occupational pension products, throughout the entire product life cycle.

To ensure nationwide support, Sales is divided into six sales regions in Germany. 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.

Institutional Customer Sales
The Institutional Customer Sales unit supports the savings banks with proprietary business and serves institutional investors, including foreign investors in some cases. Customer advisers adopt a comprehensive approach that covers all products and services offered by the Deka Group across all business divisions. The unit acts as a solutions provider for its customers, bringing together the service range of all business divisions under one roof. The *Deka Institutionell* brand puts customers and their needs at its heart in keeping with the customer-centric orientation of DekaPro.

In the savings bank sector, the Institutional Customer Sales team is available to savings banks and other banks as a management partner and adviser, and 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.

A further focus is the business with pension funds, insurance companies, corporates, public bodies, non-profit organisations, family offices and international investors.

Corporate Centres
As a resource manager for the Deka Group, the Treasury corporate centre has a key role in ensuring that the structure of the balance sheet and income statement are managed in line with the business model. As such, Treasury manages the Group's liquidity reserves, maintaining a clear focus on liquidity. It also assists the Board of Management with the management of guarantee risks from DekaBank funds and fund-related products, manages market price risks in the banking book and credit risks in its own banking book, manages group liquidity and Deka Group refinancing across all maturities, and is responsible for asset-liability management, including equity instruments. 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. Treasury's services help the business divisions achieve their targets.

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

Major companies and locations

The Deka Group's business is managed from the head office in Frankfurt/Main. The major investment management companies are also located there. WestInvest Gesellschaft für Investmentfonds mbH has its headquarters in Düsseldorf, while S Broker is based in Wiesbaden and S-Pensionsmanagement GmbH (DekaBank shareholding: 50%) in Cologne. The Deka Group's most important international office is in Luxembourg.

Deka Investment GmbH focuses on the fundamental and quantitative management of public mutual funds, special funds, ETFs and asset servicing. From 1 April 2018, the equity and bond funds managed by Deka Vermögensmanagement GmbH (formerly Landesbank Berlin Investment GmbH) were therefore transferred to Deka Investment GmbH.

Markets and influencing factors

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 strongly influence business development and profit performance. These factors have an impact on sales to retail and institutional investors as well as on the performance of portfolios. In addition to this, real estate asset management is largely influenced by the situation and developments in commercial property, investment and letting markets.

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

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

The Deka Group's business divisions have a strong position in their respective markets. With fund assets (according to the BVI, the German Investment Funds Association, as at 31 December 2018) of €122.2bn and a market share of 14.0%, Deka is Germany's fourth-largest provider of mutual securities funds. In terms of mutual real estate funds, with fund assets (according to the BVI, as at 31 December 2018) of €30.9bn and a market share of 31.5%, it occupies second place in Germany.

With issue volume once again rising significantly during the reporting year, the Deka Group achieved a market share of 18.3% in the primary market for investment certificates at the end of the third quarter of 2018 and was thus ranked second in Germany. At the same time, Deka has established itself as the market leader in reverse convertible bonds and is the second-largest provider of express certificate structures.

Alongside its own issues, DekaBank is also a significant solutions provider and adviser on issues for customers. In the savings bank sector, DekaBank is market leader in this regard in the segment for the financing of German federal states.

Risk and profit management at the Deka Group

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

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

Financial performance indicators

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

The economic result is the key in-house management indicator within the meaning of IFRS 8 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 Additional Tier 1 bonds, which is reported directly within equity (Additional Tier 1 capital), is also included in the economic result. Account is also taken of 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 aim of the adjustments to the profit or loss before tax reported under IFRS is to reflect actual growth during the period under review.

The economic result has been used in external reporting at Group and business division level since 2007. For a reconciliation of the economic result to profit before tax under IFRS, please refer to the segment reporting in note [4], 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.

See also : Changes in regulatory capital (own funds): pages 30 ff

The Common Equity Tier 1 capital ratio is used as a key management indicator for assessing the adequacy of the Deka Group's own funds in line with regulatory requirements. It is therefore also of major importance for rating agencies' assessments of the Deka Group. The Common Equity Tier 1 capital ratio is defined as the ratio of Common Equity Tier 1 capital to risk-weighted assets (RWAs) for all relevant credit, market and operational risk positions plus the credit valuation adjustment (CVA) risk. Risk-weighted assets are managed in line with the Deka Group's strategy, the targeted balance sheet structure and the capital market environment. To supplement these, further regulatory key ratios are monitored, including the leverage ratio and liquidity coverage ratio (LCR).

The risk capacity for profit-affecting risks (ICAAP) represents the upper limit of acceptable (profit-affecting) risk. The utilisation of risk capacity is the ratio of total risk (risk level) to risk capacity. A key operational risk management parameter for economic risk-bearing capacity is risk appetite, which serves as the basis for allocating risk capital. The monthly risk-bearing capacity analysis involves comparing the Deka Group's risk appetite and allocated risk capital, which may be used to cover losses, with total risk determined across all risk types that have an impact on profit or loss. This makes it possible to establish whether total risk limits have been adhered to at Group and divisional level.

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

"Net sales" is the key indicator of sales success in asset management and certificates. This figure essentially consists of the total direct sales volume of the Deka Group's mutual and special funds, fund-based asset management, funds of partner organisations, master funds and advisory/management mandates, ETFs and certificates. Net sales 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 "total customer assets" performance indicator includes the income-relevant volume of mutual and special fund products in the Securities (including ETFs) and Real Estate business divisions, direct investments in the funds of partner organisations, the portion of fund-based asset management activities attributable to partner organisation funds, third party funds and liquidity, and also advisory/management mandates. It also includes the volume attributable to certificates and externally managed master funds. Total customer assets have a significant impact on the level of net commission income. They are reported at Deka Group level by customer segment and product category.

See also: Business development in the Deka Group: pages 21 ff.

Trends in the two key non-financial performance indicators during the reporting year are described in the context of business development and profit performance at Deka Group level and at the level of the Asset Management Securities, Asset Management Real Estate and Capital Markets business divisions.

Economic report

Economic environment

Compared with 2017, the economic environment for asset management deteriorated somewhat over the reporting period. Investors were increasingly cautious in the face of the ongoing tightening of monetary policy, rising uncertainty concerning global growth prospects (which stemmed in part from trade disputes and geopolitical tensions), sluggish growth in corporate profits, and subdued earnings expectations. This was reflected in falling share prices as well as a significant decline in net inflows affecting mutual securities funds across the industry. Concerns about the long-term stability of the EU and the euro also multiplied. This was partly linked to the difficult Brexit negotiations and an expansionary fiscal policy stance in Italy. The Deka Group's total customer assets at the reporting date declined slightly year-on-year despite positive sales performance. This was caused in particular by negative investment performance as a result of market developments. Averaged over the year, however, total customer assets moderately exceeded the prior-year figure. Extremely low interest rates on deposits continued to provide a tailwind; securities will remain indispensable for a long time to come if investors are to avoid losses in the real value of their investments.

As in previous years, the expansionary central bank policy in the eurozone was detrimental to the banking business. Though the European Central Bank has phased out its securities purchases, this has not yet resulted in any lasting upward trend in bond yields. Yields on medium- and long-term Bunds and Bobls (German government bonds) fell significantly again over the year, while the deposit rate and three-month EURIBOR remained stuck in negative territory. Low market interest rates, low bond yields and a high liquidity supply again put pressure on short-term capital markets business and on lending. There were also high economic risks, for example from the impending Brexit, the trade dispute between the US and China and the political developments in Italy.

The UK plans to leave the European Union (EU), and thus the world's largest single market, on 29 March 2019. Agreements or organisational measures and intensive, long-running preparations are needed to establish the future economic relationship. The British government and EU therefore agreed initially on rules for the period immediately after the UK's exit until such a trade agreement has been signed. These transition rules (the "deal") provide for the UK to retain the European Union's trade legislation and external tariffs during this transition period. Though the protracted negotiations between the UK and EU throughout 2018 showed how difficult Brexit is to achieve, there has not yet been any significant impact on business in the Deka Group. The uncertainty surrounding Brexit is considerable, leading banks and businesses to also prepare for the possibility of a "hard", disorderly Brexit. This is a response to the political disagreement in the British parliament, which was exemplified by a vote on 15 January 2019, in which the "deal" was defeated by a large majority.

Macroeconomic conditions
Global growth weakened somewhat in the course of 2018 with increasing regional disparities. The strong upturn in the US was contrasted by a moderate slowdown in growth rates in the eurozone and China. Among the eurozone countries, Germany and Italy fell especially short of expectations. In Germany's case, this was partly due to a backlog in vehicle approvals in the automotive industry. The trade dispute between the US and China, which began with the imposition of a punitive 10% tariff on 200 billion US dollars' worth of Chinese goods, did not yet have a significant impact in the reporting year. However, the escalation threatened for the first half of 2019, involving 25% tariffs, was already weighing on sentiment in manufacturing among other industries.

Despite eurozone unemployment reaching below-average levels, core inflation remained low. The substantial oil price correction at the end of the year also acted as a brake on inflation. There was thus still no cause for the European Central Bank (ECB) to raise base rates. The ECB's monetary policy remained expansionary, notwithstanding the phasing-out of net securities purchases. This put pressure on the euro, which lost ground against the US dollar.

Economic environment for asset management
Private household wealth in Germany rose noticeably in response to the stable economic climate. At the end of the third quarter of 2018, German households held financial assets of €6,053bn, up €172bn on year-end 2017. They continued to favour cash and demand deposits, however, while investments in shares increased only marginally. Investments in fund units rose by approximately €20bn in the period to the end of September 2018. Given the greater economic and political risks posing a growing challenge to the corporate sector, private investors reduced their risk appetite.

This was accompanied by falls in share prices, especially in the second half of the year. The DAX German equity index lost 18.3% over the year. Elsewhere in Europe and in Asia, there were also substantial corrections in the second half of the year, accompanied by rising volatility. In the US, meanwhile, the Dow Jones abruptly ended its soaring performance in the fourth quarter despite continuing strong economic growth.

The cautious attitude of investors was also reflected in the investment statistics of the German Investment Funds Association BVI. Net assets in open-ended mutual funds amounted to €973.6bn at the end of 2018 (previous year: €1,022.3bn), thus falling well short of the prior-year figure, as did net inflows at €21.8bn (previous year: €72.5bn). Relatively low-risk mixed funds were in demand but did not repeat the inflows seen in the previous year. Equity funds posted a positive result with net inflows of €0.7bn. However, this did not come close to the previous year's €18.0bn. Bond funds saw significant net outflows. In contrast to retail funds, open-ended special funds for institutional investors achieved moderate growth in net assets.

Demand for mutual real estate funds rose slightly with net sales of €6.4bn, while special real estate funds lost noticeable ground. Real estate funds still offer an attractive risk/reward ratio in the current interest rate environment. Given high real estate prices and limited availability of suitable properties, however, the investment opportunities open to real estate funds remain limited. This is restricting their ability to attract new investor funds, particularly given that it is not possible to generate positive margins from liquidity investments. The stable economic environment once again led to considerable rental growth in the markets for office space in 2018. Yields declined further, especially in European markets. Overall, the global transaction volume was up on the already high prior-year figure. The North America region recorded the highest increase in investment turnover, followed by Asia/Pacific.

Economic environment for the banking business

The monetary policy framework set by the central banks continued to make itself felt in the market environment for the banking business in 2018. With core inflation remaining moderate, the ECB held fast to its historically low base rates. Deka economists do not expect the ECB to raise its deposit facility rate until spring 2020. As the flattening of money market curves at the longer-maturity end shows, market participants corrected their expectations of future base rate hikes downwards again towards the end of the year.

The ECB's securities purchases were already cut back to a monthly volume of €30bn at the start of 2018 before being terminated completely at the end of the year. However, the impact on bond yields was limited. The upward trend in yields on long-dated German government bonds was masked by the change in risk perception informed by the global trade disputes and, increasingly, the debt situation in Italy. In the final weeks of 2018, the concern about a reignition of the euro crisis and the escalating trade dispute between the US and China caused investors to move funds from high-risk investments to safer German Bunds and US Treasuries. Lowered expectations regarding future base rate rises also prevented a lasting increase in yields on the sought-after safe-haven investments.

Meanwhile, in response to the growing uncertainty, there was a noticeable widening of spreads on corporate bonds as well as sovereign and bank bonds from Italy and other eurozone countries regarded as less stable. Yields on German *Pfandbriefe* also exceeded the previous year's level.

The very high availability of liquidity continued to greatly limit short-term capital markets business. Moreover, the margins achievable on the market in the Commission Business unit were put under pressure by the increase in execution venues (such as the Organised Trading Facility (OTF)), which led to a reallocation of trading volumes. The environment for structured issues was affected by a general stagnation in certificates markets. In the OTC derivatives market, the temporary uncertainty about the recognition of LCH as the central clearer was resolved at the end of the year, meaning a stable market infrastructure for derivatives trading and the related infrastructure services of the savings banks is not in doubt.

There were no significant year-on-year changes in the market environment for the financing business. While the shipping markets continued to see structural overcapacity, the environment for aircraft and infrastructure financing was stable on the whole. Potential in terms of margins remained limited, however, as strong competition from banks and institutional investors for attractive credit assets meant that borrowers could continue to negotiate favourable terms.

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 2018 financial year. Regulatory projects especially make considerable demands on costs and resources.

Regulatory topics

In the EU, reform of Capital Requirements Regulation II (CRR II) and Capital Requirements Directive V (CRD V) made progress in the reporting year. The revision of the CRR is intended primarily to implement the proposals of the Basel Committee on Banking Supervision (BCBS) regarding the leverage ratio (LR), net stable funding ratio (NSFR) and standardised approach to counterparty credit risk (SA-CCR), as well as the revised rules on large exposures and the trading book. The trilogue negotiations between the European Council, European Parliament and European Commission on the adoption of CRR II were largely completed by the end of 2018, meaning that formal adoption of the final legal texts can be expected in the first half of 2019.

The Fundamental Review of the Trading Book (FRTB) planned to accompany the implementation of CRR II contains amended rules on market risk, which are likely to lead to an increase in risk-weighted assets (RWAs) when using the standardised approach in future. 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. This will reduce the increase in risk-weighted assets overall.

As part of the revision of European capital and liquidity requirements, it is also planned 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 Core Equity Tier 1 capital. In addition, when collateral is accepted, the collateral provider or issuer of the financial collateral shall be required to take the loan into account in their large exposure limit. Repo and stock lending transactions may become less attractive as a result. First-time application remains scheduled for 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 intends these rules to be introduced as from 1 January 2022. A timetable for implementation at EU level is not yet known. More specifically, the gradual introduction of an output floor is planned. This will stand at 50% upon introduction at the beginning of 2022 and increase to its final level of 72.5% in 2027. The output floor will limit the benefit of internal models as compared to the standardised approach. DekaBank currently uses the IRB approach for the majority of its lending. For the general components of interest rate and share price risk, it uses an up-to-date internal model for market price risk. 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 (credit valuation adjustment) risk and operational risk, which are also to be applied starting in 2022. These may also increase RWAs.

Alongside CRR II, the European Council reached an agreement on changes to the EU's Bank Recovery and Resolution Directive (BRRD II) and Single Resolution Mechanism Regulation (SRMR II). These primarily concern the translation of international standards on loss-absorbing capacity into European law (TLAC) and their harmonisation with the minimum requirements for own funds and eligible liabilities for loss absorption and recapitalisation in the event of resolution (MREL). In October, the trilogue negotiation partners reached an agreement on the treatment of existing, currently MREL-eligible liabilities until maturity. As the Single Supervisory Mechanism (SSM) applies to the Deka Group, DekaBank again supported the work on a resolution plan for the Deka Group during 2018, which will ultimately be the basis for determining MREL.

In October 2017, the European Banking Authority (EBA) presented a regulatory interpretation regarding the own funds requirements for guarantees on investments in investment funds. Application of these requirements would have severe effects on prudential capital ratios. An industry-devised alternative solution for handling the credit risks presented by guarantee funds and *Riester* pension products was introduced into the legislative process for CRR II in the course of the ECON committee meeting in mid-June 2018, with the committee voting in favour. The proposal is currently under discussion as part of the trilogue negotiations on CRR II. First-time application of the new rules is expected to coincide with the entry into force of CRR II.

The ECB examined 37 eurozone banks in the reporting year in connection with the 2018 stress tests conducted with the European Banking Authority (EBA). At the same time, the ECB carried out its own stress test, consistent with the EBA methodology, for significant institutions that are subject to direct ECB supervision, but, like DekaBank, are not among the institutions participating in the EBA's EU-wide stress tests. The stress test results for all significant institutions were used in the second half of 2018 to determine the Pillar II capital requirements for individual banks in connection with the Supervisory Review and Evaluation Process (SREP). DekaBank concluded the stress test with a result that considerably exceeded the SREP requirements.

In March 2018, the ECB also published its expectations concerning the level of risk provisioning for non-performing loans (NPL). The document is not binding on banks, but serves as a basis for the annual dialogue at banking supervisory level. Specifically, the guidelines call for full risk coverage of uncollateralised (collateralised) NPLs after two (seven) years following classification as NPL (this does not, however, give rise to any mandatory capital requirement). A draft amendment to the CRR put forward by the European Commission, by contrast, proposes a mandatory deduction from Common Equity Tier 1 capital if a bank's actual provisioning falls short of the minimum supervisory requirement.

Product- and service-related regulatory proposals

Since 3 January 2018, requirements of the EU Markets in Financial Instruments Directive II (MiFID II), EU Markets in Financial Instruments Regulation (MiFIR) and MiFID II Implementing Regulation have been partly applicable through the Securities Trading Act (*Wertpapierhandelsgesetz* – WpHG) or directly applicable as national law. MiFID II and MiFIR impose new requirements for investor protection and market infrastructure, and affect almost all of the Deka Group's portfolio of products and services. The directives include supplementary and new regulations in relation to inducements, product and marketing approval requirements and related monitoring (product governance), new record-keeping requirements (voice recording), extended obligations for institutions with proprietary trading ("systematic internalisers"), new provisions for automated trading and derivatives trading, and new reporting obligations for securities trading. DekaBank implemented the requirements of MiFID II and MiFIR on time and in close cooperation with the *Sparkassen-Finanzgruppe* and especially the DSGV. Implementing the regulatory requirements has given rise in particular to higher costs for securities and derivatives trading as well as to liability risks. Various clarifying guidelines on MiFID II were issued at national and EU level over the further course of the year. Among other things, guidelines on suitability assessment have been issued by the ESMA (European Securities and Markets Authority) and Minimum Requirements for the Compliance Function (MaComp) revised by the Federal Financial Supervisory Authority (BaFin) have been published. Both of these have been implemented accordingly in the Deka Group in consultation with the DSGV.

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. Gradual implementation is planned to run until 2024. In the first stage of the process, liquidity assistance will be made available in the event that a national guarantee scheme runs out of money. In stage two, however, all savers will be compensated from a single guarantee pot. There are inherent risks in an EU-wide pooling of liability.

Tax policy developments

The German Investment Tax Reform Act (*Investmentsteuerreformgesetz*) came into force at the beginning of the reporting year. The new Act fundamentally changes the taxation of investment funds in Germany. Since then, both mutual funds and special funds have been liable to corporation tax on income from domestic equities, rental income and gains on property disposals. To compensate for taxation of the fund, private investors in particular receive suitable partial exemptions. The exemptions are applied when calculating withholding tax and thus offset the performance-dampening effects. Subject to certain conditions, the regulations for special funds will remain unchanged.

Another tax change related to the grandfathering of old investment fund units for private investors. Gains realised since 1 January 2018 have been subject to the new tax regime to the extent they exceed a tax-exempt amount of €100,000. This rule change did not significantly impact upon customers' investment behaviour. However, implementation expenses were incurred in connection with it.

The Act for the Prevention of VAT Revenue Losses from Trading with Goods over the Internet and Amendment of Further Tax Provisions (*Gesetz zur Vermeidung von Umsatzsteuerausfällen beim Handel mit Waren im Internet und zur Änderung weiterer steuerlicher Vorschriften*) – or "Annual Tax Act 2018" – included consequential amendments to the Investment Tax Reform Act 2018. Among other things, there were changes to the equity participation ratios for individual fund types, creating greater freedom for fund managers.

Business development in the Deka Group

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

Despite a challenging market environment in 2018, the Deka Group achieved a satisfactory economic result of €451.8m (previous year: €448.9m). Income increased slightly to a total of €1,509.0m (previous year: €1,494.1m). Higher net interest income, a positive loan loss provisioning balance and slightly increased net commission income were accompanied by a decline in net financial income and other operating profit. Expenses moderately increased to a total of €1,057.2m (previous year: €1,045.2m).

The Deka Group was unable to fully escape the increasingly uncertain stock market environment in the second half of 2018. At €11.3bn, net sales in the retail business remained well within positive territory but did not quite match the previous year's figure of €12.3bn. Equity funds, mixed funds, real estate funds and certificates made up a particularly significant proportion of sales. Including sales to institutional customers, net sales totalled €11.8bn, falling short of the high prior-year figure of €25.7bn. At €0.5bn, institutional business was substantially down on the previous year (€13.4bn), partly as a result of the termination of an individual mandate (as planned) as part of the integration of Deka Vermögensmanagement GmbH (formerly LBB-INVEST GmbH) in 2018.

Deka Group net sales *in €m (Fig. 1)*

	2018	2017
Net sales	**11,773**	**25,671**
by customer segment		
Retail customers	11,296	12,309
Institutional customers	477	13,362
by product category		
Mutual funds and fund-based asset management	4,547	8,492
Special funds and mandates	–1,418	9,724
Certificates	8,043	7,597
ETFs	601	–141

At €275.9bn, the Deka Group's total customer assets were slightly down on the figure for year-end 2017 (€282.9bn). The positive sales performance was accompanied by a market-induced negative investment performance at the reporting date, distributions (from which customers benefited) and certificate redemptions.

Deka Group total customer assets *in €m (Fig. 2)*

	31 Dec 2018	31 Dec 2017	Change	
Total customer assets	**275,878**	**282,888**	−7,010	−2.5%
by customer segment				
Retail customers	137,169	138,951	−1,782	−1.3%
Institutional customers	138,709	143,937	−5,228	−3.6%
by product category				
Mutual funds and fund-based asset management	137,249	141,166	−3,917	−2.8%
Special funds and mandates	109,585	115,057	−5,472	−4.8%
Certificates	20,443	17,552	2,891	16.5%
ETFs	8,602	9,113	−511	−5.6%

Utilisation of risk capacity (42.1%) and risk appetite (67.4%) showed an increase compared to the previous year's figures (34.4% and 55.0%). This was predominantly attributable to the development of counterparty risk and market price risk. The principal reasons for this were position expansion in the Capital Markets division and a volume increase for guarantee products in conjunction with higher spread and equity volatilities. Economic risk-bearing capacity was at a non-critical level overall as at the 2018 balance sheet date.

The Deka Group's financial position remains sound. The Common Equity Tier 1 capital ratio is calculated by reference to the CRR/CRD IV requirements, without the transitional provisions (fully loaded). At the end of 2018, it stood at 15.4%. As expected, this was slightly lower than the previous year's figure (16.7%). While Common Equity Tier 1 capital increased to €4,460m due to retention of part of the annual profit from 2017 and other effects from the 2017 annual financial statements, risk weighted assets (RWAs) increased by 16.6% to €29,021m. The increase in credit risk resulted primarily from an expansion of business in the Financing business division, higher volumes in the Capital Markets business division and higher RWAs from guarantee products in the Asset Management Securities business division. The increased market risk was also attributable to the expansion of business in the reporting year.

At 4.6%, the leverage ratio (fully loaded) at the end of 2018 was considerably higher than the minimum 3.0% expected to apply from 2019. The liquidity and funding position remained comfortable, as expressed in a liquidity coverage ratio (LCR) of 149.8% as at 31 December 2018, and changed only insignificantly compared with year-end 2017 (152.5%).

Taking account of the requirements of the SREP (Supervisory Review and Evaluation Process), DekaBank had to comply at Group level with a phase-in Common Equity Tier 1 capital ratio of at least 8.18% as at 31 December 2018. This capital requirement is made up of the Pillar 1 minimum requirement (4.5%) plus the Pillar 2 requirement (1.25%), the capital conservation buffer (1.875%), the countercyclical capital buffer (approximately 0.238% at year-end 2018) and the capital buffer for other systemically important banks (0.32%). The capital requirement for the total capital ratio with transitional provisions (phase-in) was 11.68%. Both requirements were clearly exceeded at all times.

In summary, the Deka Group is well-prepared for the future in both asset management and banking business.

Comparison of forecast and actual growth

Expectations regarding the Deka Group's results in 2018, as set out in the forecast report of the 2017 Group management report and updated in the 2018 interim financial report, were largely met.

Net sales were an exception: the increasingly uncertain stock market environment in the second half of 2018 and a one-off effect in institutional business resulted in a more substantial decline than expected. Nevertheless, clearly positive net sales performance was achieved in the retail business. Total customer assets were slightly down on the prior-year figure despite the net sales. A slight increase compared with year-end 2017 had been expected. The decline was attributable to market-induced negative investment performance at the reporting date, distributions (from which customers benefited) and certificate redemptions.

Development of performance indicators in the Deka Group *(Fig. 3)*

		31 Dec 2017	Forecast report 2017	Interim report 2018	31 Dec 2018	Change	
Economic result	€m	448.9	Slight increase	Slight increase	451.8	2.9	0.6%
Total customer assets	€bn	282.9	Slight increase	Slight increase	275.9	–7.0	–2.5%
Net sales	€bn	25.7	Slight decrease	Slight decrease	11.8	–13.9	–54.1%
Common Equity Tier 1 capital ratio	%	16.7	Over 13%	Over 13%	15.4	–1.3%-points	
Utilisation of risk capacity	%	34.4	Moderate increase	Moderate increase	42.1	7.7%-points	

Ratings

At year-end 2018, DekaBank's ratings remained among the best in its peer group of German commercial banks. Since October 2017, our issuer rating from Standard & Poor's (S&P) has stood at A+ with a stable outlook, with a short-term rating of A-1. S&P gives us ratings of A+ for preferred senior unsecured debt ("Senior Unsecured Debt") and A for non-preferred senior unsecured debt ("Senior Subordinated Debt").

Moody's adjusted the ratings for DekaBank debt securities at the start of August 2018, as part of an industry-wide ratings reassessment. This was due to the transposition of Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017 amending Directive 2014/59/EU as regards the ranking of unsecured debt instruments in insolvency hierarchy ("BRRD Amendment Directive") into German law on 21 July 2018.

Moody's gave DekaBank's preferred senior unsecured debt ("Senior Unsecured Debt") a rating of Aa2 with a stable outlook. Non-preferred senior unsecured debt ("Junior Senior Unsecured Debt") is rated A1. Moody's gave DekaBank an issuer rating of Aa2 with a stable outlook. The short-term rating is unchanged at P-1. Moody's awarded an Aaa rating to DekaBank's *Pfandbrief* bonds.

The ratings awarded by both agencies reflect the high strategic importance of the Deka Group to the savings bank sector as well as the adequate capital and liquidity base for its business model.

Profit performance of the 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 €1,435m (previous year: €1,359m), representing slight growth of 6%. Net income from interest and equity investments remained level year-on-year at €609m. Net interest income was €211m (previous year: €57m). The increase was largely due to higher net interest income from the lending business and economic hedging derivatives. Net income from equity investments stood at €397m and was thus lower than the previous year's figure. This was mainly due to lower distributions from securities investments. Net commission income rose to €235m, an increase of €23m over the previous year's figure. At €256m, trading profit was up €73m on the previous year, partly due to higher customer demand for structured securities. Other operating profit was €255m (previous year: €310m).

DekaBank's operating expenses – the sum of personnel expenses, other administrative expenses including depreciation and amortisation, and other operating expenses – rose to €817m in the year under review (previous year: €772m). Personnel expenses increased, partly as a result of moderately higher staffing levels and wage and salary rises under collective agreements. Other administrative expenses including depreciation and amortisation remained roughly stable at €387m (previous year: €391m). Overall, the result before risk provisioning thus amounted to €618m, up €30m on the previous year. The overall valuation result from the lending, securities and investment business for the past financial year was €–58m (previous year: €–56m). After deducting the increased income taxes in the year under review and making an allocation to the fund for general banking risks to strengthen its core capital, DekaBank achieved an operating result after tax of €114m (previous year: €133m).

DekaBank performance *in €m (Fig. 4)*

	2018	**2017**	Change	
Net interest income and net income from equity investments	609	619	– 10	– 1.6%
Net commission income	235	212	23	10.8%
Trading result	256	183	73	39.9%
General administrative expenses	738	738	0	0.0%
Risk provision/valuation	– 58	– 56	– 2	– 3.6%
Income taxes	217	178	39	21.9%
Net income after tax	**114**	**133**	– 19	– 14.3%

Business development by business division

Business development in the Asset Management Securities business division

In light of market developments, the division's economic result fell short of the previous year's figure. Net sales to retail customers performed as expected, while a one-off effect led to a significant decline in net sales to institutional customers. Given the unfavourable development of the market in the second half of the year, the division saw a moderate fall in total customer assets.

Net sales and total customer assets

Net sales fell substantially compared to the exceptional figure of €15.9bn recorded in 2017. At €1.1bn, they also failed to meet expectations. This was due to redemptions and maturities of €–2.1bn for special funds and mandates including master funds, compared to net sales of €9.6bn in the previous year. The change reflected the one-off effect constituted by the departure of a major master funds customer.

By comparison, net sales of mutual securities funds, including fund-based asset management, were considerably more stable at €2.6bn. As expected and given the difficult market environment, however, they also failed to match the €6.4bn achieved in 2017. Equity funds and mixed funds outperformed the prior-year figures, while bond funds fell short. *Deka-DividendenStrategie* was particularly popular with investors in terms of sales. Total direct sales of mutual funds declined to €2.0bn (previous year: €5.6bn). In fund-based asset management, net sales of €0.6bn (previous year: €0.8bn) were achieved thanks to the continued success of *Deka-BasisAnlage* (Deka Basic Investment). Net ETF sales increased to €0.6bn (previous year: €–0.1bn) due to a strong rise in net sales of equity-based ETFs.

Net sales in the Asset Management Securities business division *in €m (Fig. 5)*

	2018	2017
Net sales	**1,107**	**15,870**
by customer segment		
Retail customers	3,912	5,563
Institutional customers	–2,806	10,307
by product category		
Mutual funds and fund-based asset management	2,555	6,426
ETFs	601	–141
Special funds and mandates	–2,050	9,585

The division's total customer assets amounted to €217.3bn at the end of 2018 (previous year: €231.0bn). The positive sales performance was more than offset by the market-induced negative investment performance and by distributions (from which customers benefited).

Total customer assets in the Asset Management Securities business division *in €m (Fig. 6)*

	31 Dec 2018	31 Dec 2017	Change	
Total customer assets	**217,337**	**230,991**	–13,654	–5.9%
by customer segment				
Retail customers	97,384	103,104	–5,720	–5.5%
Institutional customers	119,952	127,887	–7,935	–6.2%
by product category				
Mutual funds and fund-based asset management	106,315	112,883	–6,568	–5.8%
thereof: equity funds	28,443	29,656	–1,213	–4.1%
thereof: bond funds	31,426	36,473	–5,047	–13.8%
thereof: mixed funds	15,467	16,377	–910	–5.6%
ETFs	8,602	9,113	–511	–5.6%
Special funds and mandates	102,420	108,995	–6,575	–6.0%

Business development in the Asset Management Real Estate business division

The division's economic result outstripped the previous year's figure again, thanks to high variable fund management fees. This reflected solid investment performance by the funds, which was based on a further improvement in rental performance and a high transaction volume. Total customer assets increased by almost €3.8bn to €38.1bn due to improved net sales.

Net sales and total customer assets

The division's net sales increased to €2.6bn (previous year: €2.2bn). In the case of open-ended mutual real estate funds for retail customers, the sales quotas set on the basis of a conservative yield and liquidity management had largely been met by the end of the year. Net sales totalled €1.7bn. The previous year's figure (€1.9bn) includes reinvestments from an interim distribution from the funds prompted by changes in the German Investment Tax Reform Act (*Investmentsteuerreformgesetz*). The majority of net sales related to *Deka-ImmobilienEuropa* and *WestInvest InterSelect*.

Net sales in open-ended mutual real estate funds for institutional customers, special funds, individual real estate funds, credit funds and mandates increased significantly to €0.9bn (previous year: €0.3bn). Special funds were the main driver.

Net sales in the Asset Management Real Estate business division *in €m (Fig. 7)*

	2018	2017
Net sales	**2,624**	**2,204**
by customer segment		
Retail customers	1,717	1,924
Institutional customers	907	280
by product category		
Mutual property funds	1,992	2,065
Special funds and individual property funds and mandates	632	139

The Asset Management Real Estate business division's total customer assets increased by 10.9% in the reporting year to €38.1bn (year-end 2017: €34.3bn), of which €30.9bn related to mutual real estate funds. A yield-focused cash management policy again contributed to the rise in total customer assets. Euro-denominated mutual real estate funds achieved an average volume-weighted return of 3.4% (previous year: 2.7%).

Total customer assets in the Asset Management Real Estate business division *in €m (Fig. 8)*

	31 Dec 2018	31 Dec 2017	Change	
Total customer assets	**38,099**	**34,345**	3,754	10.9%
by customer segment				
Retail customers	28,477	26,232	2,245	8.6%
Institutional customers	9,622	8,113	1,509	18.6%
by product category				
Mutual property funds	30,934	28,283	2,651	9.4%
Special funds and individual property funds and mandates	7,166	6,062	1,104	18.2%

Transaction volume, i.e. purchases and sales of property, declined to €4.5bn (previous year: €5.9bn). Around 87% of the overall transaction volume concerned a total of 59 contractually secured property purchases. There were 21 disposals. Business activities continue to centre on properties in the office, retail, hotel and logistics 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 economic result in the Asset Management Services business division slightly exceeded the previous year's figure. There was an increase in the number of securities accounts in the Digital Multichannel Management subdivision. Market conditions led to a slight reduction in assets under custody (assets held by the Deka Group in its capacity as custodian bank).

In Digital Multichannel Management, the division maintained almost unchanged assets under custody (€118.6bn) despite the negative market environment (year-end 2017: €119.3bn). At 76.8m, the number of securities transactions significantly outperformed the prior-year figure (62.3m), partly due to the effects of the Investment Tax Reform Act (*Investmentsteuerreformgesetz*) introduced in 2018. By the end of 2018, more than 140 savings banks had used the broker model to integrate the digital investment solutions developed by bevestor into the product offering of their "internet branches".

Negative investment performance along with redemptions and maturities led to a slight year-on-year reduction in assets under custody to €194.6bn. The number of custody accounts for which the division is the legal provider rose by 3.6% or 162 thousand to some 4.7 million. Regular savings products were a key driver of the increase once again in 2018.

Business development in the Capital Markets business division

Despite a challenging market climate, the Capital Markets business division generated a satisfactory economic result in 2018. As expected, however, valuation effects meant that this did not reach the high level of the previous year. As the Deka Group's product, solutions and infrastructure provider, the division plays an important role in the customer-centric approach of the *Wertpapierhaus*. The division further refined its product and advisory offering in the reporting year with a view to the regulatory capital requirement.

The Collateral Trading & Currency unit showed with its positioning e.g. in securities lending and collateral management a good course of business. The expansionary monetary policy of the ECB and resulting oversupply of liquidity in the market remained a key factor in the 2018 financial year. The ECB's phase-out of its bond purchase programme from October had no significant impact on profit performance in 2018.

The Commission Business unit was able to stabilise its business in 2018. However, competition compressed margins, meaning that results fell short of the comparative figure for 2017.

The Trading & Structuring unit continued to record high demand in the third-party issues and certificates business and further expanded the new issue volume in the retail and institutional businesses. The unit further cemented its position in the retail certificates market, with net sales of €5.7bn exceeding the previous year's figure of €4.8bn. Net sales of certificates to institutional customers totalled €2.4bn (previous year: €2.8bn).

Business development in the Financing business division

The Financing business division noticeably improved its economic result compared to the previous year, primarily thanks to higher net interest income and a positive risk provisioning result. The specialised and real estate financing portfolios expanded considerably year-on-year, mainly due to strong new business combined with lower than expected repayments. The division's gross loan volume increased noticeably from the end of 2017 (€21.6bn) to reach €24.0bn.

Gross loan volume in the Specialised Financing subdivision rose to €14.2bn (year-end 2017: €13.0bn). This was attributable primarily to significant acquisitions in the infrastructure and transport financing segments. Of the year-end portfolio, €3.1bn related to infrastructure financing (year-end 2017: €2.4bn), €1.5bn to export financing (year-end 2017: €1.1bn), €1.2bn to public sector financing (year-end 2017: €0.8bn), and €4.5bn to transport financing (year-end 2017: €3.9bn). Transport financing comprised ship financing of almost €0.9bn and aircraft financing of €3.6bn. Total loans to savings banks fell to €3.7bn (year-end 2017: €4.5bn) due to lower demand.

The legacy portfolio, which primarily contains legacy ship financing loans that were made before the lending risk strategy was changed in 2010, was reduced further to €0.3bn (year-end 2017: €0.4bn). Legacy ship financing accounted for approximately 90% of this total.

Gross loan volume in the Real Estate Financing subdivision rose over the course of the year to €9.8bn (year-end 2017: €8.6bn). The volume of commercial property loans rose substantially to €7.8bn (year-end 2017: €7.1bn). Financing volume in open-ended real estate funds also increased, reaching €1.9bn (year-end 2017: €1.4bn).

Compared to year-end 2017, the average rating for the loan portfolio according to the DSGV master scale declined by one notch from 5 to 6. This corresponds to a decline from BBB– to BB+ on S&P's external rating scale. The average rating for Specialised Financing slipped from 5 to 7 over the same period (S&P: BBB– to BB), while that for Real Estate Financing fell from 3 to 4 (S&P: BBB to BBB–). Taking account of collateralised assets, the average rating for Real Estate Financing remained unchanged at AAA on the DSGV master scale (S&P: AAA).

New business volume in the Financing division in 2018 stood at €6.7bn, of which €3.8bn was attributable to the Specialised Financing subdivision and €2.9bn to the Real Estate Financing subdivision. Savings bank financing accounted for approximately 7% of new business arranged.

The total volume of placements was €1.0bn. As expected, this was below the previous year's figure of €2.2bn. Around 40% of this was placed directly with 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 efficient active management of group-wide liquidity, thus ensuring that flexibility and investor trust are retained even in difficult market situations. DekaBank acts as a liquidity platform, both through the close integration of asset management and banking activities and by operating cash pooling for the savings banks.

The Bank 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.

Liquidity investing remains focused on investments in credit balances held with central banks, bonds issued by German federal states, German development banks, German run-off institutions, German *Pfandbriefe*, supranational institutions and investment-grade corporate bonds.

Deka's good ratings also enable access on stable and competitive terms to the money and capital markets. In order to achieve a diversified refinancing position, DekaBank uses a variety of refinancing instruments and issue programmes which ensure that funding is obtained from a broad, diversified range of sources with a variety of currencies, maturities, products and investors. On the money market, particular use for refinancing purposes is made of traditional overnight money and time deposits and commercial paper.

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

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

Financial position, capital structure, assets and liabilities

Total balance sheet assets as at the end of 2018 were €100.5bn, representing a rise of 7.6% over the previous year's figure of €93.3bn.

Receivables due from banks rose moderately year-on-year to €9.5bn and equated to 9.5% of total assets (previous year: 9.8%). At €20.9bn, receivables due from customers were up €3.8bn on the previous year, representing 20.8% of total assets in the reporting year. This movement resulted mainly from the expansion of lending. Risk-free cash reserves with central banks totalled €14.9bn (previous year: €10.0bn). Assets held for trading remained stable at €35.1bn (previous year: €34.8bn). This represented 35.0% of total assets (previous year: 37.2%).

Amounts due to banks stood at €20.3bn (previous year: €18.7bn), corresponding to 20.2% of total assets at the reporting date (previous year: 20.0%). Amounts due to customers also increased, reaching €21.6bn (previous year: €20.5bn). They thus accounted once again for around 22% of total assets. The increase in these liabilities was mainly due to higher deposits from banks and customers. Securitised liabilities increased slightly by €0.5bn during the period under review, to €15.3bn. This was equivalent to 15.2% of total assets at the reporting date (previous year: 15.8%). Liabilities held for trading rose by a substantial €3.8bn, particularly as a result of an increase in trading issues, and reached €36.5bn. This corresponded to 36.4% of total assets (previous year: 35.1%).

Changes in the DekaBank balance sheet *in €m (Fig. 9)*

	31.12.2018	31.12.2017	Change	
Total assets	**100,464**	**93,330**	7,134	7.6%
Selected asset items				
Due from banks and customers	30,394	26,302	4,092	15.6%
Bonds and other fixed-interest securities	15,091	17,536	–2,445	–13.9%
Trading portfolio	35,122	34,756	366	1.1%
Selected liability items				
Due to banks and customers	41,891	39,228	2,663	6.8%
Securitised liabilities	15,308	14,786	522	3.5%
Trading portfolio	36,520	32,752	3,768	11.5%

Changes in regulatory capital (own funds)

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

Capital adequacy is determined in accordance with the CRR/CRD IV. Alongside credit risk, market risk and operational risk, the credit valuation adjustment (CVA) risk is also taken into account. In accordance with the provisions of the Capital Requirements Regulation (CRR) and the German act implementing the EU Capital Requirements Directive (CRD IV), capital ratios are reported both on a phase-in basis (i.e. applying the transitional provisions) and on a fully loaded basis (without transitional provisions).

The own funds requirement under supervisory law was complied with at all times during the year.

See also: Overall statement on the business trend and the Group's position: pages 21 ff.

The change in the Common Equity Tier 1 capital ratio (fully loaded) is described as part of the overall commentary on the business trend and the Group's position. The corresponding total capital ratio stood at 19.8% at year-end (year-end 2017: 21.9%).

The leverage ratio determined in accordance with the Delegated Regulation of 17 January 2015, i.e. the ratio of Common Equity Tier 1 capital to total balance sheet assets as adjusted in line with regulatory requirements, amounted to 4.6% (fully loaded) at 31 December 2018, compared with 4.7% at the end of 2017. A leverage ratio of 4.6% is disclosed under the phase-in rules (year-end 2017: 4.8%). This is substantially above the minimum leverage ratio of 3.0% that is expected to apply in 2019.

Deka Group own funds *in €m (Fig. 10)*

	31 Dec 2018		31 Dec 2017	
	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	4,460	4,460	4,145	4,238
Additional Tier 1 (AT 1) capital	474	495	474	437
Tier 1 capital	**4,933**	**4,954**	**4,619**	**4,676**
Tier 2 (T2) capital	807	807	823	817
Own funds	**5,741**	**5,762**	**5,442**	**5,492**
Credit risk	18,744	18,744	15,568	15,568
Market risk	6,348	6,348	5,127	5,127
Operational risk	3,365	3,365	3,242	3,242
CVA risk	565	565	950	950
Risk-weighted assets	**29,021**	**29,021**	**24,886**	**24,886**
%				
Common Equity Tier 1 capital ratio	**15.4**	**15.4**	**16.7**	**17.0**
Tier 1 capital ratio	**17.0**	**17.1**	**18.6**	**18.8**
Total capital ratio	**19.8**	**19.9**	**21.9**	**22.1**

Liquidity and refinancing

See also: Liquidity risk: pages 71 ff.

The liquidity management requirements set out in the Minimum Requirements for Risk Management (*Mindestanforderungen an das Risikomanagement* – MaRisk) were fully satisfied throughout 2018. The requirements of the German Liquidity Regulation (*Liquiditätsverordnung*) were likewise complied with during the year. The Deka Group's liquidity coverage ratio (LCR) declined to 149.8% at the end of 2018 (year-end 2017: 152.5%). Details about the Deka Group's liquidity position, including the liquidity coverage ratio, can be found in the risk report.

Refinancing is carried out in a diversified manner using domestic and international money market and capital market instruments. This includes issues of *Pfandbriefe*, 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 and the programmes for structured issues and certificates. These activities are supplemented by placements of registered debt securities and promissory note loans. DekaBank also uses the repo and lending markets, call money and time deposits to raise and invest liquidity.

Human resources report

The total number of employees at the end of 2018 stood at 4,716 and was almost unchanged since the previous year (year-end 2017: 4,649). The number of employees is determined by counting the number of employment contracts (temporary and permanent) in existence at the reporting date, including inactive employees, trainees and interns.

The number of earnings-relevant full-time equivalents increased by 2.5% compared with the end of 2017, to 4,178.8. The total 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. The main increases were in the central compliance and information security functions, risk management for securities funds, and custody services. At the year-end, approximately 80% of the workforce were employed in full-time posts. The average age of active employees (excluding apprentices and inactive staff members) was 44.3 years (previous year: 43.8 years). Further key indicators regarding sustainable HR management can be found in the sustainability report.

The Deka Group continued in the reporting year to pursue HR policies designed around the best possible implementation of the corporate strategy. Key aspects included increasing the Deka Group's attractiveness as an employer using an employer branding approach, as well as reorienting skills development in the context of digitalisation. Training sessions, VUCA (Volatility Uncertainty Complexity Ambiguity) workshops and other formats were introduced for this purpose in Human Resources & Organisation. These will give employees even better support in future to help them expand their technical, methodological and personal skills in line with the requirements of working in the world of Industry 4.0.

The Deka Group also promotes the career development of high-performing and high-potential staff through various formats. As a signatory to the UN Women's Empowerment Principles, it pays particular attention to women's career development. In July 2018, Deka was recognised for the fifth time in the "career and family audit" (*Audit berufundfamilie*) for its various measures to promote a work-life balance and family-friendly HR policy.

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 2019 are subject to uncertainty. Actual trends in the international capital, money and property markets or in the Deka Group's business divisions may diverge significantly from our assumptions, which are partly based on expert estimates.

The Deka Group's risk position is summarised in the risk report. If the risk scenarios referred to in the risk report should 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 2019 financial year. Conversely, opportunities may result in expectations being exceeded.

Expected macroeconomic trends

DekaBank's economists expect global growth of 3.4% in 2019, representing a moderate slowdown compared to the reporting year. Neither the industrialised nations (1.8%) nor the emerging markets (4.5%) are likely to match the growth rates seen in 2018. Forecasts indicate slower expansion in the eurozone, partly due to the dips in growth anticipated in Italy, along with a visible slowdown in the US and in central and eastern Europe. This contrasts with the recovery expected in Latin America and relatively stable growth in Asia. Consumer spending will remain the bedrock of global growth, while momentum in global trade flows and investment is likely to remain subdued, partly due to mounting trade disputes.

There is significant uncertainty concerning the nature and timing of the UK's withdrawal from the EU. An orderly exit, or "deal", in the near future (in time for the scheduled exit on 29 March 2019) is not guaranteed, as the EU is currently rejecting further negotiations. In addition, the "backstop" arrangement, which will maintain the customs union in the event that the two sides fail to conclude a mutually satisfactory new trade agreement, is opposed by many British Members of Parliament. If the British government wants to enact its own trade laws, it must be clarified how, on the island of Ireland, EU law (in the Republic of Ireland) and the new British regulations (in Northern Ireland) can coexist without a visible border. Two further possibilities are being discussed: A disorderly (hard) Brexit would occur automatically if the British parliament is unable to ratify a withdrawal agreement. Such a Brexit would likely have substantial economic consequences, especially in the UK. However, the impact on growth and capital markets would probably be temporary. A more likely outcome is a postponement of the exit date beyond 29 March 2019. This would either simply allow more time to coordinate a deal or imply the resignation of, or a renewed (and successful) vote of no confidence in, the current government under Theresa May, resulting in new elections. In the latter case, the possibility of another referendum cannot be ruled out. In any event, the UK's exit from the EU continues to pose a political risk to growth and capital markets.

Only in the emerging markets is consumer price inflation likely to accelerate somewhat. This will enable the monetary policy turnaround by central banks to remain gentle, allowing a gradual retreat from ultra-expansionary monetary policy without seriously threatening global growth.

Expected environment for asset management

Despite the end of the bond purchase programme, the eurozone's withdrawal from its extremely expansionary central bank policy will be considerably slower than that of the US. Real interest rates are expected to remain negative, providing continued tailwind for securities investments. Given the changing interest rate expectations and growing geopolitical risks, however, a moderate rise in equity markets is likely to be accompanied by higher volatility, meaning that temporary price adjustments could well be pronounced. This could reduce investors' risk appetite and temporarily hinder sales of share-based fund products. The continuing trend on the part of investors towards avoiding negative real interest rates is a good basis for long-term securities saving.

This is also true of real estate asset management, which continues to represent an appealing asset class. However, investment opportunities for real estate funds remain limited, meaning that restraint is still called for when attracting new inflows. A medium-term slowdown in rental growth and future rises in initial yields as a result of expected interest rate hikes will pose particular challenges to fund managers.

Expected environment for the banking business

The expected slight slowdown in growth in the eurozone accompanied by only a modest increase in core inflation makes it unlikely that base rates will be raised at any point in 2019. Deka economists therefore expect money market rates (3-month EURIBOR) to remain in negative territory for the time being. On the bond market, meanwhile, a steepening of the Bund curve is expected in advance of the anticipated interest rate move. The strongly negative maturity premiums in the yields on long-dated German government bonds are likely to fall. In the US bond market, the yield spread between medium- and longer-term maturities is expected to narrow. Yields on corporate bonds are also forecast to rise in 2019, though the ECB's exit from its bond purchase programme has already been largely priced in. Growing political and economic risks may manifest themselves in higher volatilities, increasing risk premiums, value mark-downs and rating downgrades.

In the individual market segments of its capital markets business, the Deka Group expects only moderate changes compared to 2018. The commission business and derivatives trading will continue to experience strong competition and pressure on margins. In the financing business, the continuing high level of market liquidity and investment pressure among institutional investors will also put heavy pressure on margins, which may be reflected in the terms and conditions offered.

Overall assessment of the economic trends

Overall, despite generally stable economic growth, the Deka Group expects a challenging economic environment for asset management in financial year 2019. A pronounced stock market correction could negatively affect total customer assets through negative investment performance and investor caution. On the other hand, the considerable financial assets of private households generally and savings bank customers in particular hold enormous potential for fund sales. Returns on assets in the banking business will remain under pressure.

Expected business development and profit performance

For financial year 2019, the Deka Group has set itself the goal of achieving progress in all three aspects of DekaPro: customer centricity, growth and efficiency. This is also reflected in the Group's expectations for its key performance indicators.

The Group's economic result in 2019 is expected to remain at the level seen in the reporting year. The forecast economic result will ensure that DekaBank remains able to distribute profits and to make the reinvestments necessary for the purposes of capital management.

Expected returns for 2019 are based on ambitious sales plans combined with an investment fund business that maintains lasting value, including regular securities saving. Overall, net sales are expected to be significantly up on the previous year's figure.

The Asset Management Securities business division is aiming for higher net sales, and therefore an increase in total customer assets. The expected improvement in sales performance will be based, among other things, on marketing measures and the enhancement of the online and multichannel offering. This will be accompanied by an improved product offering for lump-sum investments, investment fund savings and fund-based asset management. A rise in net sales is planned for the institutional business, driven primarily by sales of special funds and mandates.

Risks lie in a quicker than expected turnaround in interest rates, which could put pressure on equity markets and adversely affect investors' risk appetite. Regulatory measures and geopolitical risks could also lead to the outflow of funds. In addition, a pronounced stock market correction could negatively affect total customer assets.

The Asset Management Real Estate business division aims to improve net sales in the institutional business again – without changing sales quotas for mutual real estate funds – and achieve an overall increase in total customer assets. The strategic focus on core real estate along with strong commitments regarding quality and stability make the division the first-choice partner for the savings banks and their customers when investing in commercial property. Potential in the institutional sector is to be tapped through new products, including in connection with the tried-and-tested Deka Property Compass, and intensified sales activities, among other things. Moreover, the division plans to reinforce its attractiveness to sustainability-oriented investors by consistently taking into account sustainability criteria in portfolio management and when purchasing property.

Risks to future performance arise from fierce competition in the transaction markets, which makes transaction planning difficult. While the interest-driven boom improves sale prospects, it also puts increased requirements on the structuring of property purchases. There is also the risk of cyclical changes in value in the event of a downturn on property markets.

For 2019, the Asset Management Services business division aims to increase assets under custody in line with the targeted asset management growth. In so doing, it also aims to consolidate its positioning in the *Sparkassen-Finanzgruppe*. The Digital Multichannel Management subdivision will put a special focus on enhancing the "internet branch" and integrating it with sales channels based on physical branches and other media. Multichannel sales services will be stepped up through better provision of information, support in actively approaching customers and other initiatives. The Deka Group will cement the position of the Depositary subdivision through growth in the Deka Group investment companies' mutual funds and by obtaining third-party mandates.

Risks to future performance include rising pressure on margins for depositaries as well as market-induced outflows of funds. In Digital Multichannel Management, rising expenses may result, among other things, from changes in the regulatory environment.

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 businesses. This is the division's way of reacting to both regulatory requirements and current market developments. In certificates business, a greater focus will be placed on retail products. The Deka Group will continue to position itself as an infrastructure provider with global capital market access by, among other things, expanding functionality and systematically digitalising the existing platform solutions.

Risks arise particularly from a drop in customer activity prompted by political or market/economic events, regulatory intervention in the design of products and definition of terms and conditions, further increased market pressure on fees and greater competition among brokers.

The Financing business division aims to increase new business in 2019 in its defined core segments in specialised and real estate financing. The planned expansion of the lending portfolio will serve as a basis for sustainable contributions to the division's results. Key to this are both the extension of our positioning as a quality leader and a broadening of the product offering in existing asset classes. In a market environment that remains competitive, the division is remaining true to its stability-oriented and low-risk strategy.

Risks include political crises, which could adversely affect the economic outlook for lending segments in which we operate. This could 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 ambitious new business volume cannot be achieved.

Expected financial and risk position

For 2019 the Deka Group is anticipating a continued sound financial position with virtually stable total assets. While a volume increase is planned in the financing business, a reduction in volume is expected in the Capital Markets business division. Balance sheet management is geared towards ensuring compliance with the minimum 3.0% leverage ratio that is expected to apply in 2019.

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

Despite anticipated charges for guarantee and *Riester* pension products among other things, the Common Equity Tier 1 capital ratio (fully loaded) is expected to considerably exceed the 13% target.

Risk appetite utilisation is expected to remain at a non-critical level in future, despite a slight increase. With risk appetite almost unchanged, the planned new business in the Financing business division will be pivotal to this increase, resulting in a noticeably higher level of counterparty risk than at the end of 2018. Utilisation of risk capacity will likely rise appreciably in view of planned changes to the methodology, while also remaining at a non-critical level.

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

		31 Dec 2018	Forecast 2019
Economic result	€m	451.8	stable compared to the previous year
Total customer assets	€bn	275.9	noticeably above the previous year
Net sales	€bn	11.8	noticeably above the previous year
Common Equity Tier 1 capital ratio (fully loaded)	%	15.4	Over 13%
Utilisation of risk capacity	%	42.1	noticeably 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 earnings and probability of occurrence. The assessment of the opportunities portfolio is regularly updated through continuous and intensive market observation – including that carried out by the bank's own research teams – as well as feedback processes established with the savings banks. This allows the Deka Group to actively manage its opportunities and react to new developments swiftly.

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

- Opportunities arising from changes in circumstances result from market developments that are more favourable than expected. These include regulatory changes or changing investment trends on the part of customers.
- Corporate strategy opportunities are mainly linked to implementation of the DekaPro programme of initiatives. Positive effects linked to the growth and digitalisation initiatives may be more extensive or occur sooner than assumed in the forecast report.
- Further opportunities exist in that process improvements may be better than planned or positive impacts on results may arise from cost efficiency improvements, likewise in the context of DekaPro.

Current opportunities

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

It is thus possible that, contrary to expectations, a substantial rise in index levels could lead to strong growth in total customer assets and have a positive impact on net commission income. Moreover, the departure, initiated in the reporting year, from an ultra-expansionary monetary policy could materialise more quickly than expected in a positive macroeconomic scenario with rising core inflation. The resulting increase in yields at the long end, associated with a steepening yield curve, could improve the conditions for investing own funds and managing liquidity.

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

There are strategic and other opportunities associated with the consistent implementation of DekaPro. The resultant effects have already been incorporated into the planning for 2019, 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 and strategy remain largely unchanged from the previous year. 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 assessing the adequacy of internal capital and liquidity (ICAAP/ILAAP) and is an integral part of the Deka Group's strategy system.

Concept of risk appetite

The first starting point for the concept of risk appetite is a description of the desired risk profile that is implied by our customer-centred business model.

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 business activities in fund management, lending and capital markets. 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'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.

An efficiently structured 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 determine which risks could have a significant negative impact on its financial position (including in terms of capital adequacy, earnings or liquidity). In the course of this process, DekaBank takes into account both external as well as internal factors, the underlying assumptions of which are reviewed regularly and on an ad hoc basis as necessary.

Particular consideration is given here to risk concentrations to which the Deka Group consciously exposes itself in connection with its business model. The main examples of this are the Group's focus on the domestic public sector, on German savings banks and their customers, and on selected capital market participants and central counterparties, which is partly due to its function as a securities and collateral platform.

The second starting point for the concept of risk appetite, 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. The risk capacity for profit-affecting risks is set in the course of the economic 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 internal capital. For liquidity risk (insolvency risk), risk capacity is defined as the amount of free liquidity that is in principle available. It thus corresponds to the positive balance of the funding matrix for normal business operations.

Risk appetite is defined, within the scope of these risk capacity values, 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.

The details of the business and risk strategy are specified and quantified as part of medium-term planning. Medium-term planning involves an integrated planning process for profits, capital and risk for the next three years, with account being taken of potential adverse developments.

Risk limits for profit-affecting risks are derived from the risk and capital planning, taking into account the desired risk profile and the available risk capacity (risk capital allocation). The overall risk appetite is laid down as part of this process. It is set via a two-stage process. The maximum risk appetite (i.e. the upper limit) is obtained by deducting a capital buffer for stressed circumstances from the risk capacity. The actual risk appetite for profit-affecting risks is the risk capital allocated for the overall risk position.

Non-financial risks are quantified, insofar as possible, as subcategories of operational risk and business risk. In addition to the quantitative risk appetite, qualitative overall risk tolerance rules are also set so that the particular features of non-financial risks are appropriately reflected. Such risks include compliance risk and reputational risk, among others.

For liquidity risk, the Deka Group has defined its risk appetite such that an indefinite survival horizon exists under an extreme hypothetical stress scenario of a simultaneous institution-specific and market-wide stress event. Compliance with this risk appetite is ensured firstly by illustrating the impact of the simultaneous occurrence of institution-specific and market-wide stress events in a "combined stress scenario" funding matrix. As a second step, limits on liquidity balances across all relevant maturities that allow only positive balances ensure that the Group is solvent at all times with an indefinite survival horizon. An early warning threshold set at €1.5bn represents a first escalation level in this context.

The concept of risk appetite also covers procedures for monitoring compliance with allocated risk capital. 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.

The concept of risk appetite described above and the procedures for monitoring compliance with it form one of the three fundamental pillars of the 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 risk culture framework adopted in the reporting year 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. It also sets out the guiding principles that detailed rules on processes and tools have to adhere to.

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

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 and defines the amount of overall risk permitted at Group level. This includes decisions on the form and implementation of the risk appetite concept. The Board also sets the economic capital allocations for the different types of risk and the business divisions, including the Treasury corporate centre. 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.

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) meets once a month and advises the Board of Management on matters regarding significant risks at Group level and on addressing, analysing and assessing issues that could have a significant influence on the total risk profile or profitability of the Group. The committee thus makes an important contribution to promoting a Group-wide risk culture. The voting members of the MKR include the Head of the Risk Control department, the managers of the Risk Control, Credit Risk Office, 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 the Compliance and Legal corporate centres. 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 meets every two weeks, primarily drafts resolutions on matters relating to the management of interest rates, currency, liquidity and refinancing and to the capital and balance sheet structure. In addition, it plays a role in limiting market price risk by making recommendations on the allocation of top-level limits for the Capital Markets business division and the Treasury corporate centre. Measures to be taken in the event of a liquidity crisis are also confirmed in the course of the MKAP's regular review. Membership of the MKAP is made up of the departmental heads responsible for Treasury, Finance, Risk Control and Capital Markets business and the heads of the Treasury, Capital Markets business, Risk Control and Finance 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 Models Committee is a Group-wide, cross-divisional body that pools together and assesses current trends and validation issues with regard to valuation and risk models, and prepares content accordingly for the MKR, the Board of Management and senior management of Deka Group companies. The committee thus makes an important contribution to ensuring overarching consistency in the models employed. Furthermore, the Models Committee represents the central operational body for assessing model risks, with the aim of ensuring appropriate treatment of model risk in the Deka Group.

Additional committees that are relevant to counterparty risk management include the Country Risk Committee, which assesses country risk, the Monitoring Committee, which monitors and manages exposures at risk of default, the Risk Provisioning Committee, which 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 central functions
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 the limits.

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

The Credit Risk Office corporate centre is primarily responsible for providing a second opinion independent of front office operations, for creating and/or approving ratings and for 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 closely monitoring and managing troubled loans as well as for dealing with restructuring and liquidation cases (work-out exposures).

The Compliance corporate centre is comprised of functions that monitor and minimise selected non-financial risks. On behalf of the Deka Group, it 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 KWG. Furthermore, the Compliance corporate centre fulfils the roles of Group Money Laundering Officer, "Responsible Officer" as required for Qualified Intermediaries (QIs) under the Foreign Account Tax Compliance Act (FATCA), Information Security Officer, Data Protection Officer and Single Officer. The Compliance corporate centre has been headed by Oliver Görke since 1 August 2018.

The Internal Audit corporate centre is an independent unit that supports the Board of Management and other management levels in their control and monitoring functions. It examines and assesses all activities and processes on the basis of an annual audit plan that is drawn up with a risk-based approach, using a scoring model, and then approved by the Board of Management. One of the unit's most important tasks is to evaluate the business organisation with a focus on whether the internal control system and, in particular, risk management and monitoring are suitable and appropriate. Internal Audit also audits compliance with legal, regulatory and internal banking requirements. The Administrative Board is responsible for monitoring the internal audit system. 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. 12)*

		Counterparty risk	Market price risk	Liquidity risk	Operational risk	Business risk	Shareholding 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 - Determines risk appetite - 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 (Managementkomitee Risiko – MKR)	- Assists the Board of Management in matters relating to significant existing and prospective risks - 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 operational 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 troubled 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	●	●	●	●	●	

		Counterparty risk	Market price risk	Liquidity risk	Operational risk	Business risk	Shareholding 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 - Evaluates the measures planned for liquidity crises - Prepares draft resolutions for the Board of Management	●	●	●	●	●	●
AM Securities business division	- Conducts transactions in line with strategic guidelines	●	●	●		●	●
AM Real Estate business division	- Conducts transactions in line with strategic guidelines	●	●	●		●	●
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 established by the MKAP 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 - Reports to Board of Management and Administrative Board - Determines/monitors risk-bearing capacity - Monitors approved limits	●	●	●	●	●	●
Credit Risk Office (Corporate Centre)	- Administrative office for early risk identification - Market-independent second recommendation - Reviews and/or approves ratings - Checks certain collateral - 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)	- Monitors selected non-financial risks via specialised functions - Overall controlling of operational risks - 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 - Functions as Responsible Officer under QI and FATCA - Monitors IT security measures				●		
Internal Audit (Corporate Centre)	- Audits and evaluates all activities/processes (especially risk management system)	●	●	●	●	●	●
All business divisions and Corporate Centres	- Identify, measure and manage 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 DekaBank. This also promotes clear-cut governance.

The "Three Lines of Defence" model practised by DekaBank is designed to ensure compliance with and verification of the risk framework stipulated by the risk strategy, 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 risks involved in any business conducted. This also includes transactions to minimise total risk at Group level in day-to-day operations. The controls forming the first line of defence are supplemented and enhanced by the independent downstream organisational units that carry out risk management 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. 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.

Further developments in risk management

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

In November 2018, the ECB published two guides setting out its expectations regarding banks' internal processes for ensuring capital (ICAAP) and liquidity (ILAAP) adequacy. Both guides are applicable beginning in 2019, and the Deka Group therefore began its planning and implementation work during the reporting year. One focal point of these activities was aligning the requirements with a normative perspective as part of the ICAAP and ILAAP. In this context, there are also plans to make methodological changes to the risk-bearing capacity concept for the economic perspective of the ICAAP during the first quarter of 2019. A revised definition of internal capital and of the overall management concept is planned in light of the requirement to apply a going concern approach for the ICAAP. Here, the non-inclusion of subordinated capital components will increase the utilisation of risk capacity.

Efforts towards the implementation of the expanded MaRisk requirements, which form the basis of regulation in Germany, continued during the reporting year. Among other things, this encompassed the requirements concerning the risk culture. Partly in view of the Guidelines on internal governance that took effect on 30 June 2018, Deka has adopted a Group-wide risk culture framework. This describes how the Deka Group understands the risk culture and risk culture process.

In the context of the data architecture and risk data quality management requirements and of the reporting based on this, DekaBank further expanded and supplemented its underlying systems and processes in the reporting year. For example, the quality checks conducted during risk data aggregation will be combined, documented and monitored in a single system in future. The same applies to the documentation of the underlying data flows, key taxonomies and related data governance. This will enable prompter, more direct monitoring of any irregularities, thereby allowing targeted, continuous improvement of the underlying systems. In addition, the reporting system itself was enhanced in 2018.

Alongside individual measures to facilitate the analysis of particular indicators, an approach was developed that integrates the economic and normative perspectives for the purposes of standard reporting. This also meets the requirements concerning the new design of the ICAAP/ILAAP.

Given the increased significance of non-financial risks, the MKR sharpened its approach in the reporting year. From the beginning of 2019, the MKR will discuss financial risks and current risk reporting on a monthly basis. Non-financial risks and methodological issues will be addressed quarterly. In addition to this, the responsibilities of the Compliance corporate centre were expanded with effect from 1 October 2018. They now include functions to monitor and minimise selected non-financial risks as well as the overall control of operational risks.

To meet the requirements of the ECB guide on internal models published in November 2018, DekaBank has initiated appropriate measures in relation to the market risk model. These will continue in 2019. 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 aims to reduce the variability of model results and thereby increase confidence in internal models. It affects the internal rating models for credit risk (IRBA), internal market risk models (IMA) and internal models for estimating exposure to counterparty risk (IMM). In 2019, DekaBank will undergo an on-site audit under the IRB approach. TRIM audits concerning counterparty risk do 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 with regard to the Fundamental Review of the Trading Book (FRTB) and the scheduled introduction of the new Standardised Measurement Approach (SMA) to calculating operational risk capital, both of which could also potentially affect Pillar II of the Basel framework.

Model adjustments were made in the context of macroeconomic stress tests during the reporting year. Overall, these have only a moderate impact on the projected utilisation of risk capacity. Specifically, the proxy model for calculating credit risk was replaced by integration of the productive model, and the potential variance from plan was calculated more conservatively in the business risk.

Overall risk position of the Deka Group

See also: Opportunities report: pages 37 ff.

The risk position presented in the risk report relates to the Deka Group's risk position overall, and therefore 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.

Risk definitions, concentrations and measurement

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

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

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

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

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.

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

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

Given this definition, the management of reputational risks depends on the context of the risk type involved. For instance, when conducting the self-assessment of operational risks, a systematic determination and qualitative assessment of reputational risks resulting from an OR loss event are also performed. Where counterparty risk is concerned, the Deka Group uses appropriate counterparty risk principles, a blacklist and appropriate assessment as part of the credit approval process. A sustainability filter is also applied in the context of counterparty and market price risks. Finally, in the case of business risk, the risk of lower commission due to the materialisation of reputational risks is taken into account. 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 stressed 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 a sub-category of operational risk. Model risks are incorporated directly into the Deka Group's risk-bearing capacity by developing and assessing corresponding scenarios as part of the self-assessment process.

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

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

Further types of risk

The Deka Group defines shareholding risk as the risk of financial loss due to impairment of the portfolio of equity investments, insofar as they are not consolidated in the balance sheet and therefore already included under other types of risk. Internal capital is set aside for shareholding 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 that are not already covered by the provisions recognised for pensions. If material, 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.

Other non-financial risks identified during the risk inventory are covered by superordinate risk categories. These include, for instance, conduct risk and tax risk, which are dealt with especially within the scope of operational risk. Qualitative risk tolerance rules also exist for each of these risks.

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 across 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.

Division-specific risk profiles

The Deka Group's business activities are organised into five business divisions. Asset Management Securities, Asset Management Real Estate, Asset Management Services, Capital Markets and Financing. 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 other Deka Group brands. In addition, managed guarantee products create counterparty and market price risks for the Deka Group. The division also faces shareholding 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. 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 shareholding 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, which is included in this division.

Capital Markets business division
Customer-led business activity in the Capital Markets business division gives rise in particular to counterparty and market price risks. These arise primarily from currency, securities lending and securities repurchase transactions, from trading in financial instruments with financial institutions, savings banks, funds and companies, and in relation to DekaBank's strategic investments. In relation to the division's liquidity investments, credit spread risks and, to a lesser extent, general interest rate risks, share price risks and currency risks arise in relation to the market price risk in the strategic investments unit. 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 the financing of savings banks, infrastructure, and transport, as well as ECA-backed financing and the financing of commercial real estate) create corresponding focal points, primarily in counterparty risk. In accordance with the business model, this also leads to regional risk concentrations in Germany, as well sector-based risk concentrations in relation to the financial sector. Real estate financing usually involves individual loans with a different regional focus. The division also faces shareholding risks.

Treasury
The Treasury corporate centre's various functions, especially management of the liquidity reserve, give rise to credit and market price risks. Given the strategic focus, risk is concentrated on the public sector and domestic counterparties. Market price risk chiefly involves spread risks. Interest rate risks, currency risks and share price risks arise to a limited extent. Operational risks also exist to a limited extent.

Risk management instruments covering all risk types
The Deka Group uses a variety of tools to manage the risks and risk concentrations resulting from its business activities and thereby continuously ensure capital and liquidity adequacy. 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 in the sections covering the individual risks. The Deka Group essentially uses three tools for overall management and monitoring of the risks with the aim of ensuring capital adequacy: the risk inventory, risk and capital planning as well as risk-bearing capacity (including stress testing), and capital allocation. Key performance indicators are integrated into both the recovery plan and the remuneration system. Liquidity risk management, which aims to ensure the Deka Group can meet its payment obligations at all times, forms another management level to complement economic risk-bearing capacity. Like the latter, it is based on the results of the risk inventory and integrated with the recovery plan and remuneration system.

Risk inventory
The Deka Group determines and assesses its overall risk profile using a risk inventory that is performed on both a regular and an ad hoc basis. The central objective of the risk inventory process is to analyse, determine and assess the materiality of the individual risk types in a transparent manner, taking into account the risk drivers and risk concentrations resulting from the business model. The assessment has further implications for backing risks with capital, for the holding of liquidity, and for validation. In addition, the inclusion of the companies to be considered in the risk inventory is examined. The risk inventory is the starting point for the analysis of risk-bearing capacity and, together with the risk strategy, forms the basis for the design of further risk management tools. It is divided into a preliminary analysis, a review of the risk universe for relevance and materiality to the Deka Group and the individual business divisions, and preparation of the results in a report and risk directory. In addition, major risk issues for the Deka Group are discussed each month by the MKR.

Risk and capital planning
The risk-bearing capacity of the Deka Group is determined both in terms of the current situation and for the next three budget years. In economic risk and capital planning, the risk-bearing capacity is calculated for each budget year as part of medium-term business planning based on forecast business activity and associated risks as well as planned internal capital. Based on this, DekaBank's Board of Management sets the risk appetite for operational activities and the allocation of 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.

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 are determined, compliance with the guidelines and limits is monitored and current results are compared to plan. 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.

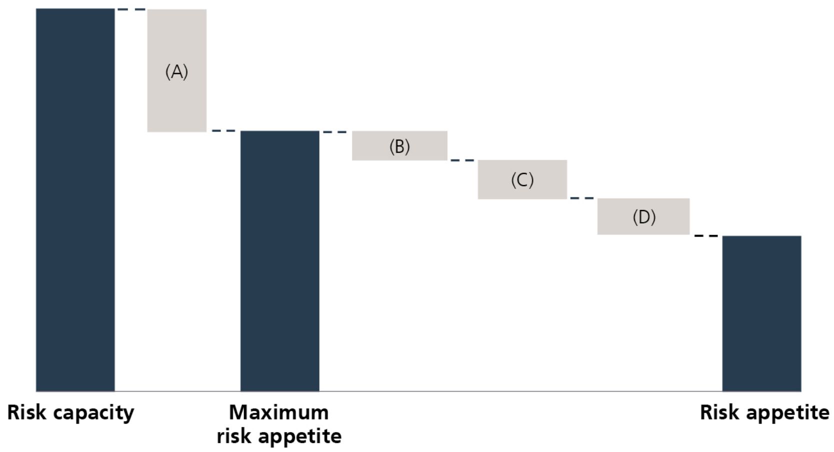
DekaBank uses the value-at-risk approach (VaR) in order to quantify individual risks on a uniform basis and to aggregate them as an indicator for overall risk. The calculation of VaR for a one-year holding period is made for internal management purposes with a confidence level of 99.9%. This level is 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 and positions with a hybrid capital nature (subordinated capital), adjusted using amounts to correct for specific capital components, such as intangible assets or risks arising from pension obligations. This internal capital is available – in the sense of a formal total risk limit – to safeguard risk-bearing capacity.

In order to reflect extreme market developments and turbulence within the risk-bearing capacity analysis and ensure that risk-bearing capacity is maintained at all times, a capital buffer derived from the risk capacity is explicitly reserved for stress scenarios. This corresponds at a minimum to the level of subordinated capital components, including Additional Tier 1 capital. The maximum risk appetite, which is the result of risk capacity less the capital buffer for stress scenarios, represents the primary strategic management parameter.

Taking into account other deductions (for example, a buffer for model uncertainties in relation to the risk models used) as well as an allocation reserve, this results in the risk appetite set by the Board of Management, which serves as the primary operational control parameter for the allocation of risk capital. In addition to the Group level analysis, risk is also limited by business division (including the Treasury corporate centre) and risk type (including shareholding risk) in the form of allocated risk capital.

Risk capacity and risk appetite *(Fig. 13)*



(A) Less maximum of subordinated capital components and buffer for stress scenarios
(B) Less hidden losses and reserves and own credit rating effects
(C) Less buffer for model uncertainties
(D) Less allocation reserve

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

Stress tests and scenario analyses

Economic risk-bearing capacity is regularly assessed by way of macroeconomic stress tests, which cover all types of risk and enable an estimate to be made of how risk capacity would be affected by extreme market developments. Specific scenario analyses are also carried out for all material risk types. Macroeconomic stress tests and risk type-specific scenario analyses enable action areas to be identified at an early stage as soon as crisis situations emerge.

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

The effects on risk-bearing capacity of the various all-risk stress scenarios are quantified for one year after the underlying date of the stress test. This includes both the scenario-specific determination of risk capacity and the overall risk position. These key figures are calculated in a two-step process. In step one, relevant risk drivers and risk factors are determined on the basis of macroeconomic and, where applicable, scenario-specific parameters. In step two, the figures are then calculated on this basis. The same risk exposures are used to determine the overall risk position as are used to evaluate current risks.

Calculations for risk type-specific scenarios also indicate the sensitivity of risk exposures in isolation with respect to different relevant risk drivers.

The results of the all-risk and risk type-specific 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 regular annual reviews of the scenarios performed across all risk types were carried out in the fourth quarter of 2018. In general, it was found that the scenarios examined continue to provide an appropriate reflection of all risks relevant to the Deka Group. The stress scenarios were updated, fundamentally revising them and tightening them up in the light of current global economic developments. The description and choice of parameters for the hypothetical and institution-specific stress scenarios were adjusted accordingly.

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 monthly reporting on the economic risk situation and on the key regulatory liquidity ratios, and the quarterly risk report in accordance with MaRisk, which provides the Board of Management and the Administrative Board with a comprehensive overview of risk-bearing capacity and the significant types of risk. The Board of Management also receives more extensive reports for individual risk types, which contain key information on the current risk situation.

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.

Overall risk position in the 2018 financial year

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. After largely stable market developments with little fluctuation in the first half of the year, which was reflected in no overall change to total risk, market uncertainty and volatility rose significantly in the second half of the year. Growing economic worries, partly due to geopolitical tensions, also led to a noticeable widening of spreads.

The agreement reached on 14 November 2018 regarding the UK's exit from the European Union, which followed protracted negotiations, had no significant impact on business developments at the Deka Group in the short term. However, Brexit could in future adversely affect the stability of the financial markets and result in lower economic growth rates. Given that the British parliament rejected the Brexit agreement on 15 January 2019, there also remains the risk of a disorderly ("No Deal") Brexit.

The Deka Group has tasked a group of experts with examining the current and possible future impact on the Deka Group of the UK's exit from the EU. This includes fundamental legal questions such as the changes that may need to be made to established contracts with counterparties. The group is also systematically exploring possible long-term impacts on market infrastructure, such as the effect of moving clearing activities from LCH London to EUREX in Frankfurt. Full account of Brexit-related market movements and associated risks is also being taken in risk management, in particular as regards the modelling of stress scenarios. Further developments will therefore be closely watched.

Utilisation of risk capacity and of the maximum risk appetite remained at non-critical levels throughout the reporting period. The Deka Group also maintained ample liquidity throughout.

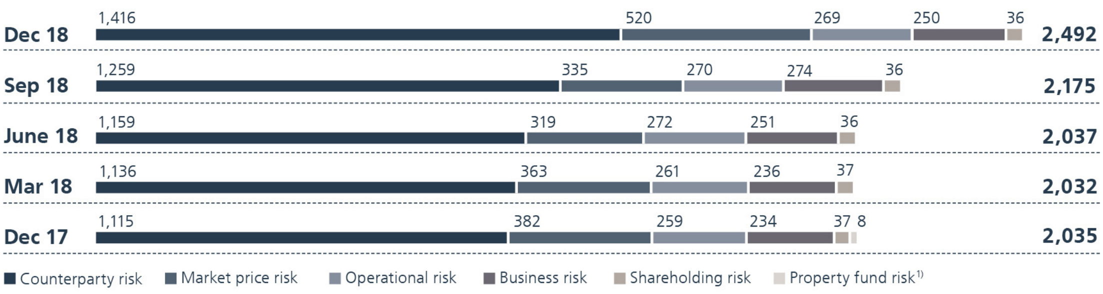
The Deka Group's total risk exposure (value-at-risk, confidence level 99.9%, holding period of one year) at the 2018 reporting date was €2,492m, an increase of €457m on the 2017 reporting date (€2,035m). The increase was predominantly attributable to substantial rises in counterparty and market price risk. Business and operational risk were also up year-on-year. Only shareholding risk recorded a slight decline.

Despite the increased risk level, utilisation of allocated risk capital was non-critical both at Deka Group level and in all business divisions. The risk appetite of €3,700m (unchanged since the end of 2017) was 67.4% utilised as at the 2018 reporting date (year-end 2017: 55.0%).

While total risk increased year-on-year, risk capacity changed only marginally at €5,920m (year-end 2017: €5,912m). There were positive effects especially from the increase in retained earnings through partial retention of the annual profit for 2017, the movement in the correction item for the own credit quality effect and a smaller deduction for risks on pension obligations. However, these were almost fully offset by negative effects from maturing subordinated liabilities, a reduction in the correction item for hidden liabilities/reserves from securities in the banking book and an increased deduction for deferred tax assets. Utilisation of risk capacity increased to 42.1% due to the rise in total risk (year-end 2017: 34.4%), but remained at a non-critical level. Utilisation of the maximum risk appetite increased to 56.4% with an unchanged capital buffer for stress scenarios (year-end 2017: 46.1%). The calculation of the maximum risk appetite does not incorporate subordinated capital (including AT1 capital and perpetuals).

The stress scenarios that are run on a regular basis across all risk types also confirmed that risk capacity was not fully utilised in any scenario as at 31 December. In the most commonly considered scenarios, risk capacity utilisation was considerably below the early warning threshold of 80%, both during the reporting period and at the reporting date. Exceptions were the scenarios involving a eurozone debt crisis and the collapse of systemically important banks. Even in these two scenarios, risk capacity utilisation remained below 100%.

Change in Deka Group risk over the course of the year *€m (Fig. 14)*



[1] The real estate fund risk has been included in the market price risk since 1 January 2018.

Counterparty risk

Strategic framework and responsibilities

The credit risk strategy stipulates the parameters for all Deka Group transactions that involve counterparty risk. It serves in particular as the foundation for the Group's counterparty risk principles for loans as defined by section 19 (1) of the KWG and describes the business divisions and segments that are the focus of lending activities – including the specific risk determinants and minimum standards for new business. Furthermore, the credit risk strategy serves to distinguish between the individual risk segments and governs the handling of intra-risk concentrations, 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.

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

In the context of risk-bearing capacity, counterparty risks are limited by allocating risk capital (risk appetite) both overall and at business division level. For individual counterparties, risk is restricted using a limit system based on factors such as creditworthiness, collateral, duration and country and sector considerations. Management and monitoring of risk concentrations (cluster risks 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 clear functional separation in the lending business between the "front office" and the "back office". 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 troubled loans and non-performing 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 counterparty risks and their risk concentrations across all risk types. A number of 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 (troubled loans and 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. The committee discusses country ratings on both a regular and ad hoc basis. It also defines country limits, identifies countries to be excluded (blacklist for high-risk countries) and determines measures to reduce overruns of country limits as well as other risk-reducing measures.

Focus, structure and degree of risk associated with business activities
Counterparty risks are incurred both in the individual business divisions and the Treasury corporate centre.

In the Capital Markets business division, the currency, securities lending, repurchase and derivative transactions entered into give rise particularly to counterparty and issuer risks, as does trading in financial instruments in all asset classes. When supporting investment funds and savings banks with the provision and management of liquidity, the division consciously exposes itself to risk concentrations in relation to savings banks, selected capital market participants and central counterparties.

In the Treasury corporate centre, counterparty risks arise mainly from the management of Group-wide liquidity reserves. As a result of the business model, Treasury is exposed particularly to risk concentrations in respect of public authorities and, from a regional perspective, in respect of domestic counterparties.

In the Financing business division, counterparty risk arises from infrastructure, transport and export finance, and property finance. The Financing business division also includes business with domestic savings banks as well as financing of the domestic public sector. Due to the limited volume of financing in the division in relation to the Deka Group's total loan volume, there are no risk concentrations in these areas. In terms of countries, risks are concentrated on Germany due to the Group's close involvement in the savings banks association and its transactions with the domestic public sector. In addition, the Deka Group's ownership structure and its function in the savings bank association lead to a sector concentration on financial institutions.

In the Asset Management Real Estate business division, counterparty risk is incurred only to a limited extent in connection with real estate fund units in the Deka Group's own investment portfolio.

In the Asset Management Securities business division, counterparty risk for the Deka Group arises predominantly from contractually binding commitments made in connection with guarantee funds and pension products.

In the Asset Management Services business division, counterparty risk arises primarily from lending business with retail customers conducted by S Broker AG & Co. KG. The retail customer lending business of DekaBank Deutsche Girozentrale Luxembourg S.A. was fully wound down over the course of the year. Counterparty risk also arises from the proprietary investments of the two companies S Broker AG & Co. KG and DekaBank Deutsche Girozentrale Luxembourg S.A. No risk concentrations exist, as the volume of retail customer lending business in the Deka Group is small relative to overall lending volumes.

Management and limit-setting

The Deka Group uses different tools to manage 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.

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 liquidity reserve 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. A review independent 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 specifically for counterparty risk. Scenarios include, for example, a rating downgrade for public authorities and federal state banks as well as an increase in downgrade probabilities or loss ratios for certain collateral. 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 troubled loans and 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, increased significantly in the reporting year to €1,416m (year-end 2017: €1,115m). Risk capital allocated to counterparty risk stood at €1,905m (year-end 2017: €2,015m). Utilisation of this amount was 74.3% (year-end 2017: 55.3%). The level of risk capacity utilisation therefore remained non-critical. The main reason for the rise in the CVaR was the increase in exposures, which was primarily attributable to higher corporate bond holdings and a promissory note-based transaction to refinance a consumer loan portfolio in the strategic investments unit. Spread widening in the bond market – partly as a result of the termination of the ECB's bond purchase programme – also had an impact in the form of higher migration risks. The increased volume of specialised lending and a rise in the volume of guarantee funds also moderately increased risk. The updated parameters for migration matrices and loss ratios, which were used for the first time from the beginning of 2018, slightly offset the increase in risk.

The risk position of the cluster portfolio is assessed using a redistribution based on expected shortfall. This also resulted in an increase compared to the previous year, as the number of borrower units classed within counterparty clusters rose. Risk concentrations in the ten largest counterparty clusters grew slightly in terms of their absolute amount and share of the overall portfolio. However, risk concentration remained in line with the Deka Group's credit risk strategy.

Gross loan volume increased by €14.5bn from the end of 2017 (€136.8bn) to reach €151.3bn. A large part of the increase was attributable to the financial institutions risk segment, where higher deposits with Deutsche Bundesbank and the increased bond volume (much of which, albeit, involved fully secured transactions by major capital market counterparties) both had an effect. Another reason was the expansion of the repo lending volume with central counterparties. In addition, the higher bond volume led to a higher gross loan volume in the corporates risk segment. The funds risk segment was marked by higher repo volumes and a larger volume of issued loan collateral. Volume in the lending business also exceeded 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 contrast, the reduction in the volume of German federal state-issued bonds reduced risks in the public sector Germany risk segment. The ship portfolio's share of gross loan volume decreased to 0.7% (year-end 2017: 0.9%), partly due to sales. Given the continuing difficult market environment, the ship financing portfolio is still being closely followed and monitored on an ongoing basis.

Gross loan volume *€m (Fig. 15)*

	31 Dec 2018	31 Dec 2017
Financial institutions	84,522	72,527
Savings banks	7,358	7,177
Corporates	12,792	12,260
Public sector International	2,726	2,710
Public sector Germany	7,541	11,255
Transport and export finance	6,192	5,193
Property risks	10,039	8,771
Funds (transactions and units)	16,347	14,502
Other	3,772	2,420
Total	**151,288**	**136,817**

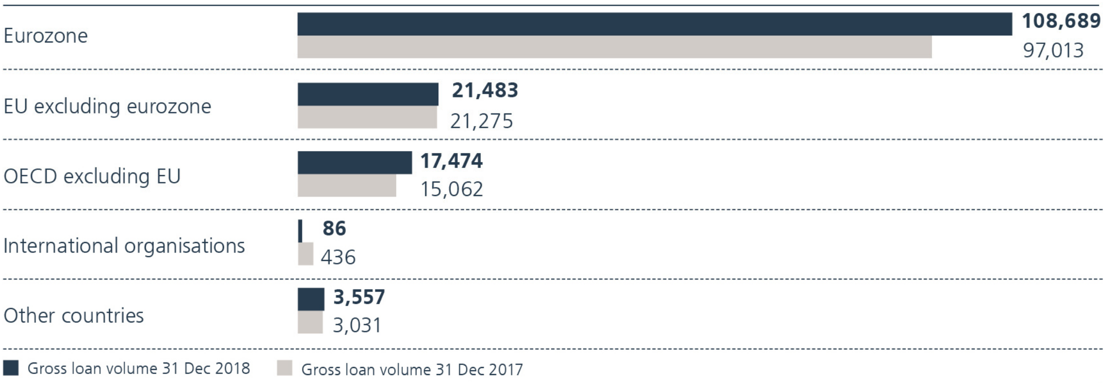
The net loan volume increased by €16.6bn to €71.5bn at year-end 2018 (previous year: €54.9bn). This considerable rise reflected the effect of disclosing transactions with domestic public sector counterparties and counterparties bearing guarantor liability on a net basis for the first time. The rise in volume in the financial institutions risk segment, which was also visible after netting, was primarily due to higher deposits with Deutsche Bundesbank. By contrast, the growth in the volume of collateralised business did not have a material effect due to the deductions made when converting from gross to net loan volume. Here, the netting of lending transactions, particularly given their increase in the funds risk segment, and the even more extensive collateralisation of loans in the transport and export finance and property risk segments, meant that the rise in net loan volume was smaller than that in gross loan volume. Meanwhile, the increase in liquidation risks had the opposite effect.

Net loan volume *€m (Fig. 16)*

	31 Dec 2018	31 Dec 2017
Financial institutions	33,559	24,637
Savings banks	7,064	6,722
Corporates	6,900	6,396
Public sector International	1,469	1,771
Public sector Germany	7,108	2,331
Transport and export finance	820	670
Property risks	2,046	1,695
Funds (transactions and units)	8,810	8,306
Other	3,770	2,400
Total	**71,545**	**54,928**

A substantial portion of the rise in gross loan volume related to the eurozone, owing to the increased level of Bundesbank deposits, the higher repo volume with the central counterparty EUREX, the increase in repo transactions with counterparties in Germany and France, and the higher lending volume in Luxembourg. Gross loan volume in the eurozone rose to 71.8% of total gross loan volume from 70.9% at the end of 2017. The gross loan volume allocated to Germany increased by €6.7bn to €67.5bn. In the eurozone, €17.0bn of the gross loan volume was attributable to counterparties in Luxembourg. Counterparties in France accounted for 6.5% of the gross loan volume, and counterparties in Belgium accounted for 3.8%. At €21.5bn, gross loan volume in EU countries outside the eurozone was higher than at the end of 2017, primarily due to increased volumes of repo lending, bond trading and loans with counterparties in the UK. Due to the Brexit negotiations, however, the country and sovereign limit for the UK is being closely monitored. In the OECD countries outside the European Union, the increase was due in particular to a greater exposure to bonds issued by US counterparties and to secured aircraft and real estate financing in North America. There was also an increase in the volume attributable to financial institutions in Switzerland.

Gross loan volume by region *€m (Fig. 17)*



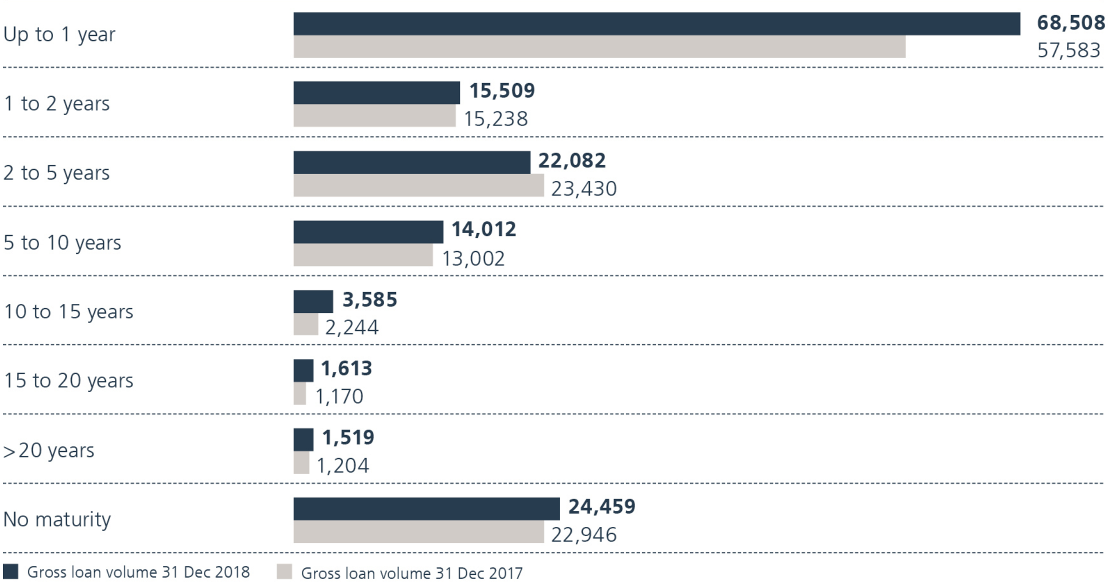
The gross loan volume attributable to borrowers in Italy declined from €1.3bn at the end of 2017 to €1.2bn. The country limit was also substantially reduced in the course of the year. Due to the collateralisation provided by repo lending transactions, the security provided for the bond portfolio using protection buyer CDS and the securing of loans through, for example, ECA guarantees, the net loan volume attributable to borrowers in Turkey, Italy, Spain, the UK and Russia was lower than the gross loan volume.

Gross loan volume by risk segment for selected countries as at 31 December 2018 *€m (Fig. 18)*

	Turkey	Spain	Italy	Great Britain	Russia
Financial institutions	0	1,925	304	15,352	0
Corporates	0	360	160	1,690	0
Public sector International	0	79	221	617	0
Transport and export finance	114	0	205	199	133
Energy and utility infrastructure	0	53	0	0	0
Property risks	0	1	250	2,213	0
Funds (transactions and units)	0	0	0	44	0
Other	0	41	14	123	0
Comprehensive income	**114**	**2,460**	**1,154**	**20,238**	**133**
Change vs. previous year					
Financial institutions	0	–242	–100	–436	0
Corporates	0	–49	50	–24	0
Public sector International	–5	–197	–20	533	0
Transport and export finance	–15	–14	–13	56	–83
Energy and utility infrastructure	0	–2	0	0	0
Property risks	0	–1	–52	102	0
Funds (transactions and units)	0	0	0	–16	0
Other	–14	–1	–25	98	0
Comprehensive income	**–34**	**–506**	**–161**	**311**	**–83**

The gross loan volume remained focused primarily on the short-term segment at the end of 2018. The proportion of transactions with a time to maturity of less than one year was 45.3% (year-end 2017: 42.1%). The proportion of maturities longer than ten years was 4.4%, compared with 3.4% at 31 December 2017. The average legal residual term of gross lending was 2.6 years (year-end 2017: 2.7 years).

Gross loan volume by maturity *€m (Fig. 19)*



There was no significant change in the level of risk concentration in the loan portfolio during the reporting year. As at 31 December 2018, 18.3% (year-end 2017: 18.4%) 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 rose by 7 to 26. The reason for this was again the change in the risk calculation for transactions with public sector counterparties, as a result of which higher net limits needed to be set. This did not lead to an increase in risk. Of the cluster portfolio, 24.3% related to counterparties in the German public sector, the savings banks and other alliance partners. A total of 15.9% of net loan volume related to counterparty clusters (year-end 2017: 9.4%).

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 3% of net loan volume as at 31 December 2018 related to shadow banking entities under the principal approach (limit utilisation of total net risk position: 93%) and less than 1% to shadow banking entities under the fallback approach (limit utilisation of total net risk position: 48%). The levels of utilisation are considered acceptable. This view is backed up by the shadow banking entities' average rating of A (principal approach) or AA- (fallback 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 2018 was 15 bps (year-end 2017: 12 bps). The change was due, among other things, to new, largely ECA-backed export financing in Angola and Vietnam with relatively poor ratings. With regard to the net loan volume, a rating improvement by one notch to A– was achieved, partly as a result of the increase in volume with Deutsche Bundesbank and other public sector counterparties with good credit ratings due to the change in the risk calculation. The probability of default went down to 9 bps, compared with 11 bps at the end of 2017. This was a result of the slight improvement in ratings for large Deka funds. 87% of net loan volume remained in the same grouping (determined by rating class) as at the end of 2017. 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. 20)*

	Average PD in bps	Average rating 31 Dec 2018	31 Dec 2018	Average PD in bps	Average rating 31 Dec 2017	31 Dec 2017
Financial institutions	5	A+	33,559	7	A	24,637
Savings banks	1	AAA	7,064	1	AAA	6,722
Corporates	12	2	6,900	12	2	6,396
Public sector International	8	A	1,469	5	A+	1,771
Public sector Germany	1	AAA	7,108	1	AAA	2,331
Public infrastructure	16	3	984	19	3	675
Transport and export finance	176	9	820	193	9	670
Energy and utility infrastructure	55	6	2,052	59	6	1,606
Property risks	9	A-	2,046	10	A-	1,695
Retail portfolio	3	AA	733	3	AA	119
Funds (transactions and units)	10	A-	8,810	14	2	8,306
Comprehensive income	**9**	**A-**	**71,545**	**11**	**2**	**54,928**

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).

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. 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. 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.

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.

Market price risks need to be considered in the Asset Management business 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.

Focus, structure and degree of risk associated with business activities

With respect to market price risk, the Deka Group's business model focuses primarily on spread risks. 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. Open risk positions are entered into only within the allocated market price risk limits.

In its function as a securities and collateral platform, the Capital Markets business division offers a carefully coordinated, competitive range of capital market and credit products. Outside the strategic investments unit, proprietary trading not directly linked to customers takes place only for the purposes of managing risks from the customer business or for overall risk management purposes. The primary risks that result from these activities are credit spread risks, as well as interest rate, equity, option and currency risks. Whenever economically justified, risks are covered using hedging instruments. The 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.

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

In bond trading in the Trading & Structuring unit, positions are established in the bonds of public issuers, financial services providers and corporates, among others. The focus here is on market-making for customers. Therefore, long-term positions are generally not entered into. Nevertheless, risks may arise from entering into short-term positions in anticipation of customer orders.

In derivatives trading, the Trading & Structuring unit is responsible for pricing and risk management of linear interest rate derivatives, interest rate options, equity, fund and inflation derivatives, and other types of derivatives. Trading focuses on linear and non-linear interest rate derivatives as well as inflation derivatives, giving rise mainly to interest rate and share price risks as well as associated option risks. Share price risks and associated option risks from equity, fund and strategy derivatives also feature.

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

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

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

Management and limit-setting

Market price risk is monitored on a daily basis. The basis for this monitoring is a system of operational limits that is consistent with the Group's overall risk-bearing capacity. This system defines limits in line with the business model for the various portfolio levels and risk categories. 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. 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 in the analysis of significant macroeconomic scenarios. The effects of this analysis, which covers all risk types, are investigated on a quarterly basis and serve as an early warning mechanism for the Bank regarding its risk-bearing capacity.

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

Backtesting of VaR risk ratios and validation

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

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

Current risk situation

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 €520m. The increase since the end of 2017 (€382m) was primarily attributable to a larger volume of guarantee products in conjunction with higher equity volatilities of late and a considerable fall in stock markets. An increase in exposures and higher spread volatilities in the Capital Markets business division also contributed significantly to the higher risk level. The increase in risk fell largely on the Capital Markets and Asset Management Securities business divisions, while only minor year-on-year changes were recorded in the other divisions and in the Treasury corporate centre.

With a confidence level of 99% and a holding period of ten days, market price risk (value-at-risk), excluding guarantee risks, stood at €50.6m as at the reporting date (year-end 2017: €43.8m). The increase mainly consisted of spread risk, particularly as a result of the above-mentioned increase in exposures and higher spread volatilities in the Capital Markets business division. Utilisation of the operational management limit at Deka Group level (excluding guarantees) stood at €71m. This represented a utilisation level of 72% and was therefore non-critical. Following the integration of real estate fund risk into market price risk at the beginning of the reporting year, the Asset Management Securities and Asset Management Real Estate business divisions are now also monitored as part of operational market price risk management.

Deka Group value-at-risk excluding guarantee risks[1] (confidence level 99%, holding period ten days) *€m (Fig. 21)*

	31 Dec 2018						
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	0.1	0.3	2.4	41.6	19.3	51.5	28.8%
Interest rate – general	0.1	0.3	2.3	4.1	14.9	15.0	72.4%
Spread	0.0	0.0	1.5	40.1	11.4	48.0	20.9%
Share price risk	0.3	0.6	0.3	4.9	0.0	4.9	40.0%
Currency risk	0.0	0.1	0.1	0.9	2.6	3.2	– 61.9%
Total risk	**0.3**	**0.7**	**2.4**	**41.2**	**19.6**	**50.6**	**15.5%**

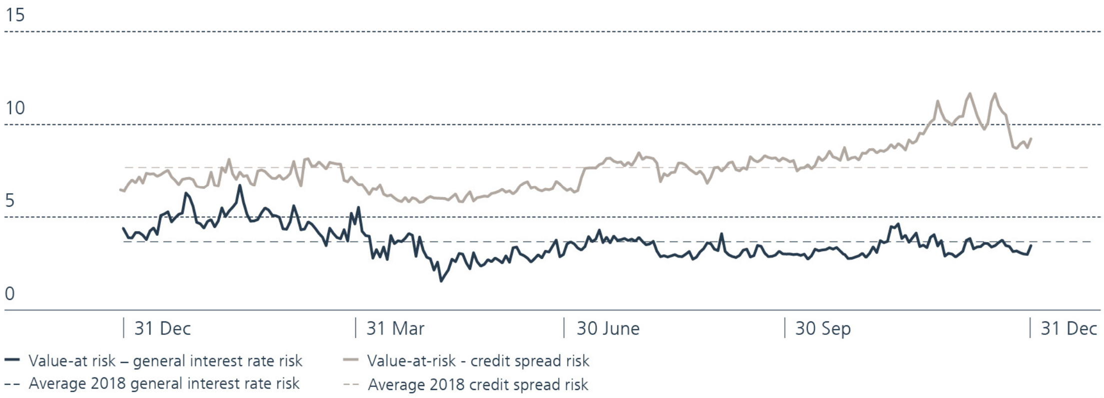
	31 Dec 2017			
Category	**Treasury and Capital Markets business division**	**Asset Management Services business division**	**Non-core business**	**Deka Group excluding guarantees**
Interest rate risk	39.1	2.6	4.0	40.0
Interest rate – general	7.8	2.6	1.3	8.7
Spread	38.1	1.6	3.7	39.7
Share price risk	3.7	0.3	0.0	3.5
Currency risk	8.8	0.2	0.5	8.4
Total risk	**43.0**	**2.5**	**3.9**	**43.8**

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

The VaR of spread risk rose significantly in the second half of the year. By year-end, it was €48.0m higher than the comparative figure for 2017 (€39.7m). There was a slight reduction in exposures in the liquidity reserve in the Treasury corporate centre. Against this, strategic investments in the Capital Markets business division increased and volatilities rose substantially in the fourth quarter. 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 2018 was consistent with the Deka Group's market price risk strategy.

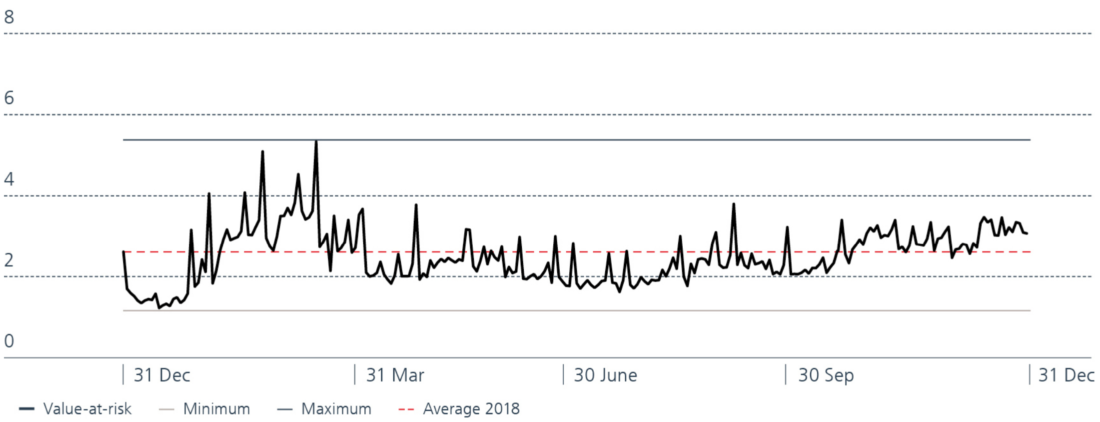
The VaR for general interest rate risk (excluding risks on guarantee products) increased from €8.7m at year-end 2017 to €15.0m. This rise was mainly due to an increase in exposure to cross-currency swaps in the Treasury corporate centre, which was caused by a higher US dollar refinancing requirement accompanying increased business with foreign currency loans.

Value-at-risk – General interest rate risk and credit spread risk in the Capital Markets trading book over the course of 2018 *€m (Fig. 22)*



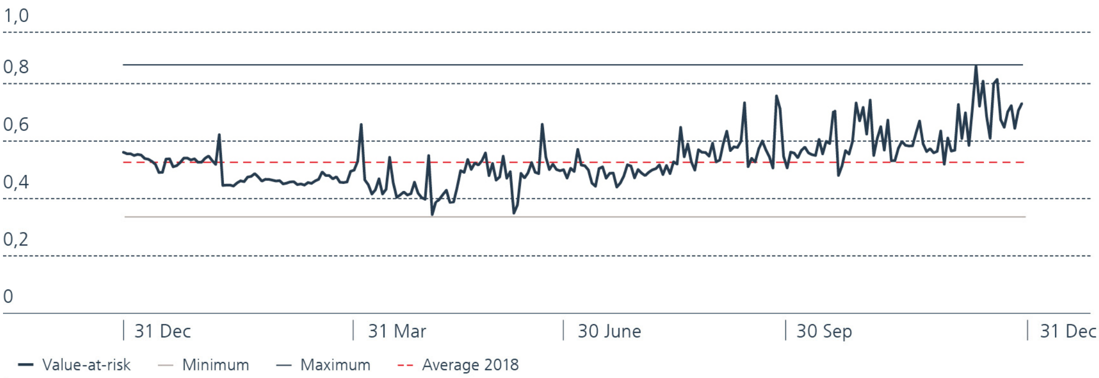
Share price risk rose compared with the year-end figure for 2017 (€3.5m) to €4.9m and remained insignificant. Share price risk in the Capital Markets business division trading book totalled €3.1m (year-end 2017: €2.6m).

Value-at-risk – Share price risk in the Capital Markets trading book over the course of 2018 *€m (Fig. 23)*



As in the previous year, currency risk resulted mostly from positions in British pounds and US dollars. It declined to €3.2m (year-end 2017: €8.4m). The change was attributable to a reduction in the open US dollar position in the Treasury corporate centre. Currency risk in the Capital Markets business division trading book stood at €0.8m (year-end 2017: €0.6m).

Value-at-risk – Currency risk in the Capital Markets trading book over the course of 2018 *€m (Fig. 24)*



Liquidity risk

Strategic framework and responsibilities

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

As liquidity risk in the narrow sense (insolvency risk) is not an immediate risk to the Group's profit that can be cushioned with equity capital, liquidity risk management forms an additional management level that complements the economic risk-bearing capacity analysis. The central objective of liquidity management is to prevent liquidity shortfalls and thus ensure that the overall solvency of the Deka Group is guaranteed on a continuous basis. Risks impacting the income statement arising from refinancing gaps (liquidity maturity transformation risk) are currently not material because the limits placed on liquidity balances in the funding matrix (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 Group overall, market liquidity risk is also not regarded as significant at present.

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

The Board of Management is supported by the MKR and MKAP when fulfilling its management responsibilities regarding liquidity risk monitoring. The two committees prepare decisions and make recommendations that are presented to the Board of Management for adoption. The Liquidity Emergency Crisis Committee is convened in the event of a liquidity emergency. It may decide all measures judged necessary to ensure the short-term solvency of the Group and may instruct all units of the Deka Group to implement these measures. The Board of Management, as a permanent member with a voting right, is the core of this crisis committee.

Liquidity positions are managed by the Treasury corporate centre. Liquidity management involves managing and monitoring short-term and structural liquidity, especially through funding matrices, and offsetting liquidity costs and benefits. At the same time, the Treasury corporate centre ensures that an adequate liquidity reserve of central-bank-eligible collateral is available. In addition, it is in charge of managing the Deka Group's liquidity reserve as well as controlling the level of liquidity ratios. Operational liquidity management across all maturities is also handled centrally by the Treasury corporate centre. This includes money market transactions on the interbank market with savings banks, the Bundesbank or the ECB, businesses, insurance companies and funds.

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

Management and limit-setting

Funding matrices

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

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

The liquidity buffer is used to cover possible stress-induced liquidity outflows from the banking book as well as stochastic liquidity outflows that cannot be influenced by the Deka Group or can only be influenced to a limited extent (stochastic liquidity position). As a component of the liquidity reserve, the liquidity buffer falls under the remit of the Treasury corporate centre. The minimum level required and currency composition of the liquidity buffer are determined by Risk Control on a quarterly basis. 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 as part of the liquidity reserve and which do not form part of the liquidity buffer.

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

The Deka Group primarily examines the "combined stress scenario" FM, which simulates the simultaneous occurrence of both the institution's own and market-wide stress factors. This FM fully implements MaRisk requirements. In addition, individual stress scenarios are examined separately in special FMs 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.

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 (funds transfer pricing) allows liquidity to be proactively managed and efficiently allocated.

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

Liquidity risk is also kept under control by means of the Liquidity Coverage Ratio (LCR), which is a prescribed regulatory ratio. The LCR indicates the ratio of highly liquidity assets to net liquidity flows under stressed conditions.

Reporting

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

Current risk situation

The Deka Group continued to have ample liquidity throughout the reporting period. 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 and early warning thresholds were complied with throughout the 2018 financial year.

As at 31 December 2018, 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 €8.7bn (year-end 2017: €6.4bn). In the maturity band of up to one month, the liquidity surplus totalled €11.4bn (year-end 2017: €7.0bn), and in the medium-term range (three months) it amounted to €15.2bn (year-end 2017: €12.6bn).

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 €5.8bn on day 1, the Deka Group has a high liquidity potential (almost €13bn) 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 2018 *€m (Fig. 25)*

	D1	>D1-1M	>1M– 12M	>12M– 5Y	>5Y– 20Y	>20Y
Liquidity potential (accumulated)	12,917	12,602	2,593	63	192	192
Net cash flows from derivatives (accumulated)[1]	– 595	– 399	470	– 909	– 1,620	– 1,627
Net cash flows from other products (accumulated)	– 5,205	– 829	13,231	11,089	5,068	966
Liquidity balance (accumulated)	**7,118**	**11,373**	**16,294**	**10,244**	**3,640**	**– 469**
For information purposes:						
Net cash flows from derivatives by legal maturity (accumulated) [1]	– 595	– 672	– 576	– 1,956	– 2,534	– 1,627
Net cash flows from other products by legal maturity (accumulated)	– 5,330	– 8,428	– 16,417	– 2,469	– 362	284
Net cash flows by legal maturity (accumulated)	**– 5,925**	**– 9,100**	**– 16,994**	**– 4,425**	**– 2,896**	**– 1,343**

[1] Including lending substitute transactions and issued CLNs.

As at 31 December 2018, 64.0% (year-end 2017: 60.6%) 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 from the Capital Markets business division made up 61% of total capital market issues. 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. Savings banks accounted for 12.3% of money market refinancing, while funds represented 24.3%.

Some 63.3% of total refinancing was obtained in Germany and other eurozone countries. Approximately 25% of total refinancing was accounted for by issues of bearer securities that cannot be attributed to any buyer country. The portion of refinancing accounted for by the UK, mainly consisting of the repo volumes traded with LCH.Clearnet, was reduced to 6.3%.

The regulatory requirements in relation to the Liquidity Coverage Ratio (LCR) were met throughout the period under review. As at year-end 2018, the Deka Group's LCR stood at 149.8% (year-end 2017: 152.5%). The average for the reporting year was 144.8% (previous year: 146.4%). The LCR fluctuated within a range from 136.6% to 152.0%. It was thus always substantially above the minimum limit of 100.0% applicable in 2018.

Operational risk

Strategic framework and responsibilities

The strategy laid down by the Deka Group to deal with operational risks (OR strategy) forms the basis for organisation of operational risk management. It defines the framework for the Group-wide establishment and operation of a standard system for identifying, assessing, monitoring and managing operational risks. The OR strategy applies to all organisational units of the Deka Group.

Roles and responsibilities

Due to the process-specific nature of operational risks (OR), the Deka Group pursues a decentralised approach to 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 Board of Management has overall responsibility for the appropriate handling of operational risks in the Deka Group. In this respect, it is specifically responsible for defining and regularly reviewing the OR strategy, ensuring that required conditions for Group-wide implementation of the strategy are in place and adopting measures for OR management at Group level.

The Operational Risk unit is responsible for central components of 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. The units risk modelling and model validation are responsible for designing and enhancing the model used to quantify operational risks and for independently validating it.

Risks are identified, measured and managed on a decentralised basis by various functions within the individual Group units. While the division heads are responsible for implementing the requirements specified in the OR strategy and the actual management of operational risks, OR managers are responsible for decentralised application of the 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.

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

The Central Financial Crime Unit and the Operational Risk unit cooperate closely with representatives of the business divisions and corporate centres in the identification and evaluation of scenarios regarding criminal offences (e.g. employee fraud) as part of the annual Forum Fraud Prevention. As a contributor to the forum, the unit provides information on recorded loss events and fraud risks and adopts the resulting assessments for the OR database in the form of scenario analyses.

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 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 and conducts regular control procedures. The Data Protection Officer reports directly to the Board of Management and the senior management of Deka Group companies at least once a year.

The BCM/ISM unit has a leading supportive role in defining and implementing Business Continuity Management (BCM) across the Deka Group. BCM encompasses all emergency planning measures to protect the Deka Group against losses as a result of business process interruptions during emergencies and crises, and thus also serves to minimise operational risks.

The Information Security Management unit 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. The unit provides a catalogue of security measures, 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. Implementation of risk-mitigation measures is followed up and incorporated into risk reporting.

Outsourcing management at the Deka Group is laid down in the outsourcing strategy and is based 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 different methods for managing and controlling operational risks. Taken together, these methods, which are based on different approaches, provide a comprehensive view of both the current risk situation and expected risk trends.

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

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

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

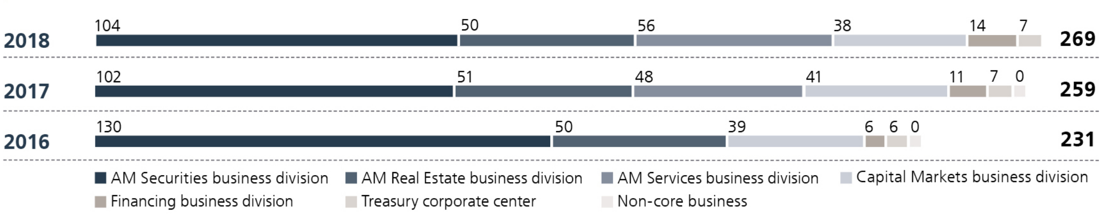
OR loss events are recorded in a structured manner with the help of a central loss database starting from a minimum gross limit of €5,000 at the Deka Group level. As well as providing a description of the loss, the database includes documentation that covers the causes of the loss and suitable measures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

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

Current risk situation

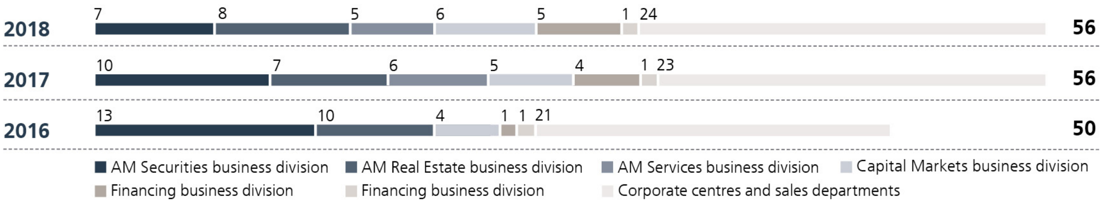
The VaR for operational risk (confidence level of 99.9%, holding period of one year) increased moderately from €259m at year-end 2017 to €269m. With almost no change in the amount of actual incurred losses, this increase in risk was triggered by the updated assessment of various risk scenarios. Firstly, the scenario analysis was fundamentally revised to comprehensively incorporate risks from interruptions to business processes. Secondly, the measures implemented to improve the transparency of valuation principles tended to result in more conservative estimates of the scale of losses and frequency of occurrence. The breakdown of VaR by business division (including the Treasury corporate centre), which is used for internal management purposes, revealed a slight shift towards the Financing and Asset Management Services business divisions, essentially reflecting the distribution of loss events in the reporting year. Risk capital allocated to operational risk stood at €335m (year-end 2017: €320m). Utilisation of this amount was 80.4%. Utilisation thus remains at a non-critical level.

Value-at-Risk *€m (Fig. 26)*



The OR loss potential identified in the Group-wide risk inventory remained unchanged year-on-year at €56m. During the year, increased risks in relation to computer sabotage, espionage and data manipulation in the Compliance corporate centre and a greater risk of legal changes in the Financing business division were balanced out in particular by a reduction in the frequency of occurrence estimated for personnel risks (which had temporarily been assessed from a very conservative standpoint) in the course of the strategic realignment at a subsidiary in the Asset Management Securities business division. 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. 27)*



Based on the Federal Ministry of Finance (BMF) circular on the tax treatment of cum/cum transactions of 17 July 2017, tax risks exist in connection with relief from withholding tax (*Kapitalertragsteuer*) on share transactions made around the dividend record date in the years 2013 to 2015. All matters are reported in the 2018 consolidated financial statements in accordance with DekaBank's interpretation of the relevant tax regulations and accounting standards.

In addition, DekaBank has performed a voluntary investigation 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 investigations concerning the matter have not given any indication that this was the case. Based on the findings currently available to it, DekaBank considers it unlikely that the tax authority will be able to make a successful claim in relation to these matters.

Compliance

The Deka Group's Compliance corporate centre, which reports directly to the Board of Management, performs the compliance functions required by supervisory law. It is designed to ensure, in a durable, effective and independent way on behalf of the Board of Management, that legal requirements and regulatory standards as well as the company's internal standards and requirements are adhered to in order to protect the Deka Group from financial loss. The Compliance corporate centre also carries out the compliance functions and the role of Money Laundering Officer for a large number of regulated subsidiaries in Germany, under service level agreements. Compliance duties for Luxembourg-based companies are performed by the local Compliance unit in Luxembourg. The Responsible Officer position is held by the head of the Compliance corporate centre for relevant units in Germany and Luxembourg. The international offices in London and New York have local Compliance Officers who have a reporting line to the Compliance corporate centre.

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

In addition, the Compliance corporate centre fulfils requirements under the German Money Laundering Act (*Geldwäschegesetz* – GwG) and German Banking Act (*Kreditwesengesetz* – KWG), including ensuring that there are internal safeguards to prevent money laundering, terrorist financing, fraud and other criminal actions in accordance with section 25h (1) KWG and to prevent corruption and bribery by providing a central office within the Bank. The corporate centre is also responsible for monitoring compliance with financial sanctions and embargoes at national and international level in accordance with the requirements of section 7 of the German Foreign Trade Ordinance (*Außenwirtschaftsverordnung*) and the EU Blocking Regulation (EU) 2271/96 as amended.

In addition, the requirements of MaRisk (AT 4.4.2) are fulfilled by a compliance function which is responsible for identifying and limiting compliance risks, and advising the Board of Management and the specialist units, particularly in connection with the implementation of effective processes and procedures to ensure adherence to significant legal regulations and requirements related to compliance.

In carrying out its duties, the Compliance unit advises and trains the specialist units on an ongoing basis. It also carries out risk-based reviews regarding adherence to statutory and regulatory requirements related to compliance and to the overall compliance guidelines.

The Compliance unit performs a risk analysis and assesses the procedures and controls established by the business units to determine whether they are appropriate and effective. An additional risk analysis is prepared on the topics of money laundering, terrorist financing, other criminal actions and financial sanctions.

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

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

Accounting-related internal control and risk management system

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

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

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

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

The 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.

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 funds business are the planned and actual commission income and expenses and the size of the assets under management. Both assets under management and net commission income depend on customer behaviour and the market environment. Account is taken of fund price movements and unexpected net 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 the year under review, the VaR for business risk increased moderately to €250m (year-end 2017: €234m). Against the risk-reducing impact of higher realised net commission income in the asset management divisions, volatilities for equity funds, real estate funds and other funds recently rose again. There was also higher expected net commission income, which is taken into account in business risk, in the Asset Management Securities business division. The change in the calculation of potential variance from plan had no significant impact on the level of business risk. Risk capital allocated to business risk was reduced from €400m at the end of 2017 to €365m. Utilisation was 68.5% and thus at a non-critical level.

Other risks

Shareholding risk

Equity investments (shareholdings) include all direct and indirect holdings of the Deka Group in other companies, regardless of their legal form. Equity investments held as credit substitute transactions fall under the credit risk strategy. In principle, 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 shareholding 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.

At the end of 2018, the VaR related to shareholding risk totalled €36m and was close to the previous year's level (year-end 2017: €37m). The risk capital allocated to shareholding risks remained unchanged at €60m, with utilisation of 60.4%.

Annual financial statements

Balance sheet *as at 31 December 2018*

Assets				31 Dec 2018	31 Dec 2017
	€	€	€	€	€'000
1. Cash reserves					
a) Cash on hand			10,062.95		23
b) Balances with central banks			14,904,564,636.03	14,904,574,698.98	9,952,420
of which:					
with Deutsche Bundesbank	14,904,564,636.03				(9,952,420)
2. Due from banks					
a) due on demand			2,437,680,904.23		3,084,330
b) other claims			7,066,822,386.65	9,504,503,290.88	6,092,944
of which:					
public sector loans	93,457,821.79				(98,899)
3. Due from customers				20,889,855,431.20	**17,125,195**
of which:					
mortgage loans	1,375,212,288.41				(1,166,297)
public sector loans	1,573,555,450.34				(1,428,179)
other loans secured by mortgages	0.00				(0)
4. Bonds and other fixed-interest securities					
a) Bonds and debt securities					
aa) from public sector issuers		1,391,110,720.85			4,736,894
of which:					
eligible as collateral with Deutsche Bundesbank	1,220,375,921.61				(4,292,516)
ab) from other issuers		13,487,438,623.22	14,878,549,344.07		12,643,582
of which:					
eligible as collateral with Deutsche Bundesbank	9,965,323,132.80				(10,978,997)
b) own bonds			212,611,557.40	15,091,160,901.47	155,408
Nominal amount	210,750,000.00				(154,050)
5. Shares and other non fixed-interest securities				3,472,653,478.35	**3,317,995**
6. Trading portfolio				35,121,561,156.00	**34,756,236**
7. Equity investments				22,125,484.93	**22,495**
of which:					
in banks	117,903.91				(118)
8. Shares in affiliated companies				465,084,642.50	**472,791**
of which:					
in banks	70,863,811.45				(78,820)
in financial services providers	13,037,291.28				(13,037)
9. Trust assets				143,247,569.87	**151,985**
10. Intangible assets					
a) Concessions, industrial property rights, and similar rights and values as well as licences there to, acquired for a consideration			15,854,618.00		21,581
b) Advance payments			0.00	15,854,618.00	0
11. Tangible assets				14,165,423.35	**14,388**
12. Other assets				389,749,872.14	**343,416**
13. Prepaid expenses and accrued income					
a) from underwriting and lending business			62,153,515.84		22,819
b) other			367,196,232.75	429,349,748.59	395,696
14. Excess of plan assets over pension liabilities				0.00	**19,581**
Total assets				**100,463,886,316.26**	**93,329,779**

Liabilities				31 Dec 2018	31 Dec 2017
	€	€	€	€	€'000
1. Due to banks					
a) due on demand			4,681,444,477.41		4,631,437
b) with agreed maturity or period of notice			15,614,808,585.78	20,296,253,063.19	14,073,643
of which:					
registered mortgage Pfandbriefe	0.00				(0)
registered public sector Pfandbriefe	120,877,491.77				(123,176)
2. Due to customers					
Other liabilities					
a) due on demand			12,336,174,445.57		12,224,430
b) with agreed maturity or period of notice			9,258,432,513.76	21,594,606,959.33	8,298,605
of which:					
registered mortgage Pfandbriefe	5,008,537.12				(5,009)
registered public sector Pfandbriefe	1,545,310,221.28				(1,978,374)
3. Securitised liabilities					
a) bonds issued			6,082,535,863.07		8,422,185
of which:					
mortgage Pfandbriefe	74,540,815.62				(74,541)
public sector Pfandbriefe	760,498,390.87				(251,491)
b) other securitised liabilities			9,225,044,374.85	15,307,580,237.92	6,363,997
of which:					
Money market securities	9,225,044,374.85				(6,363,997)
4. Trading portfolio				36,520,344,829.01	**32,751,711**
5. Trust liabilities				143,247,569.87	**151,985**
6. Other liabilities				279,993,857.57	**311,156**
7. Accruals and deferred income					
a) from underwriting and lending business			13,483,831.09		10,089
b) other			206,228,166.77	219,711,997.86	245,532
8. Provisions					
a) provisions for pensions and similar obligations			23,494,212.12		0
b) provisions for taxes			69,785,122.54		75,221
c) other provisions			446,702,496.04	539,981,830.70	429,194
9. Subordinated liabilities				1,391,901,377.88	**1,391,564**
10. Fund for general banking risks				3,508,185,726.19	**3,251,540**
of which:					
special item pursuant to Section 340 e (4) HGB	223,692,000.00				(195,202)
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		78,760
b) Capital reserve			189,366,198.03		189,366
c) Retained earnings					
ca) reserves required by the Bank's statutes		51,283,598.27			51,284
cb) other retained earnings		114,068,590.47	165,352,188.74		114,069
d) Net income			63,270,682.38	662,078,866.74	72,282
Total liabilities				**100,463,886,316.26**	**93,329,779**
1. Contingent liabilities					
Liabilities from guarantees and warranty agreements				4,044,451,624.82	3,294,987
2. Other liabilities					
Irrevocable lending commitments				2,144,907,750.62	1,707,988

Income statement *for the period 1 January to 31 December 2018*

Expenses and income				2018	2017
	€	€	€	€	€'000
1. Interest income from					
a) Lending and money market transactions		871,130,126.82			606,394
of which: negative interest income	70,854,405.43				(45,683)
b) Fixed-interest securities and debt register claims		175,486,538.55	1,046,616,665.37		179,531
of which: negative interest income	221,206.06				0
2. Interest expenses			835,150,333.37	211,466,332.00	**729,346**
of which: positive interest expenses	115,959,901.05				(76,510)
3. Current income from					
a) Shares and other non fixed-interest securities			10,037,071.25		189,982
b) Equity investments			2,274,723.38		2,150
c) Shares in affiliated companies			58,451,370.87	70,763,165.50	74,135
4. Income from profit pooling, profit transfer and partial profit transfer agreements				332,326,128.91	**299,771**
5. Commission income			1,117,150,712.88		**1,071,172**
6. Commission expenses			881,804,593.36	235,346,119.52	**858,877**
7. Net income/expenses from trading portfolio				256,402,768.67	**183,489**
8. Other operating income				334,160,990.36	**344,500**
9. General administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		284,795,185.68			275,805
ab) Social security contributions and expenses					
for pensions and other employee benefits		66,219,202.98	351,014,388.66		70,595
of which:					
for retirement pensions	31,616,598.48				(37,409)
b) Other administrative expenses			376,778,173.43	727,792,562.09	380,298
10. Write-downs and valuation allowances on intangible assets and tangible assets				10,223,037.64	**10,936**
11. Other operating expenses				79,062,793.15	**34,052**
12. Write-downs and valuation allowances on receivables and certain securities and allocations to provisions for loan losses				92,194,707.80	**71,617**
13. Allocations to the fund for general banking risks				228,155,547.41	**220,355**
14. Write-downs and valuation allowances on equity investments, shares in affiliates and securities held as fixed assets				34,367,583.21	**15,470**
15. Income from write-ups to equity investments, shares in affiliates and securities held as fixed assets				5,820,814.66	**3,702**
16. Profit or loss on ordinary activities				331,583,625.42	**311,011**
17. Income taxes				217,422,583.22	**178,170**
18. Income transferred under profit pooling, profit transfer or partial profit transfer agreements				50,890,359.82	**60,559**
19. Net income				**63,270,682.38**	**72,282**

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 2017 have been prepared in accordance with the provisions of the German Commercial Code (HGB) and the Regulation on Accounting Principles Relating to Financial Institutions and Financial Services Institutions (RechKredV). The provisions of the Pfandbrief Act were also taken into account. The balance sheet structure prescribed for commercial banks was expanded to include line items relating to banks active in the Pfandbrief business.

2 Accounting and valuation methods

General information

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

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

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

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

Valuation of securities portfolios and derivatives

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

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

Valuation models, which are deemed to be appropriate for the respective financial instruments, are used where no prices are available from an active market. Observable market data is always used as the basis where available. However, the availability of observable stock market prices, valid prices or market data varies from financial instrument to financial instrument and can change over time. Furthermore, the valuation models are periodically readjusted and validated as required. Depending on the financial instrument and market situation, it may be necessary to include assumptions and assessments by the Bank in the valuation. The Bank also selects suitable modelling techniques, appropriate parameters and assumptions. 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. The valuation is carried out on the basis of net present values including refinancing, risk and administration costs. There was no excess liability at the reporting date, therefore the recognition of a provision was not required.

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

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

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

When valuing OTC derivatives, the Bank also takes Credit Value Adjustments (CVAs) or Debit Value Adjustments (DVAs) into consideration in order to account for counterparty credit risk or the Bank's own credit risk, 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 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 intangible assets and pension provisions. As at the reporting date, measurement differences between the commercial balance sheet and tax balance sheet leading to the recognition of deferred tax liabilities exist to only a very limited extent. DekaBank's combined tax rate (31.9%) is used to measure deferred taxes.

3 Derivative transactions

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 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
Interest rate risks						
OTC products						
Interest rate swaps	584,170.0	471,725.3	10,455.2	8,694.2	10,034.4	8,366.5
Forward rate agreements	32,981.0	19,425.0	2.1	0.2	2.5	0.2
Interest rate options						
Purchases	19,850.2	14,782.8	149.1	146.0	123.4	88.5
Sales	22,993.1	14,370.0	220.1	192.3	388.5	349.0
Caps, floors	18,808.1	12,047.8	55.2	39.4	41.4	38.4
Other interest rate futures	2,372.3	1,719.6	4.8	1.3	66.6	44.2
Exchange traded products						
Interest rate futures/ options on interest rate futures	13,316.6	14,179.4	6.2	3.0	1.9	2.8
Sub-Total	**694,491.3**	**548,249.9**	**10,892.7**	**9,076.4**	**10,658.7**	**8,889.6**
Currency risks						
OTC products						
Foreign exchange future contracts	13,593.4	14,930.1	100.5	180.3	103.3	179.2
Interest rate/currency swaps	3,068.3	2,707.0	168.1	121.5	156.4	161.5
Currency options						
Purchases	0.2	–	–	–	–	
Sales	0.2	–	–	–	–	
Sub-Total	**16,662.1**	**17,637.1**	**268.6**	**301.8**	**259.7**	**340.7**
Share and other price risks						
OTC products						
Share options						
Purchases	437.2	664.8	22.8	136.3	–	–
Sales	6,039.7	6,053.7	–	–	3.6	315.3
Credit derivatives	11,312.6	9,117.8	91.5	119.0	61.6	55.6
Other forward contracts	2,655.8	3,830.3	46.8	11.1	93.6	67.2
Exchange traded products						
Share options	21,214.0	15,833.0	397.0	638.2	1,457.1	899.1
Share futures	1,466.0	2,061.1	84.1	11.9	9.8	6.5
Sub-Total	**43,125.3**	**37,560.7**	**642.2**	**916.5**	**1,625.7**	**1,343.7**
Total	**754,278.7**	**603,447.7**	**11,803.5**	**10,294.7**	**12,544.1**	**10,574.0**
Amount carried in the statement of financial position:			4,611.5	5,006.5	5,408.4	5,332.3

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 €7.2bn (previous year: €5.3bn). On the other hand, the paid variation margin reduces market values on the liabilities side by around €7.1bn (previous year: €5.2bn).

Derivative Geschäfte - Fristengliederung (Nominalwerte) - Handelsbestand

	Interest rate risks		Currency risks		Share and other price risks	
€m	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
Residual term to maturity						
less than 3 months	70,790.6	55,547.0	6,488.6	7,985.3	4,605.0	7,603.0
> 3 months to 1 year	66,065.3	56,080.5	7,871.8	7,012.7	9,780.5	7,997.4
> 1 year to 5 years	275,383.8	206,243.8	1,685.6	2,174.6	26,731.1	19,389.5
> than 5 years	282,251.6	230,378.6	616.1	464.5	2,008.7	2,570.8
Total	**694,491.3**	**548,249.9**	**16,662.1**	**17,637.1**	**43,125.3**	**37,560.7**

Derivative transactions – classification by counterparties – trading portfolio

	Nominal value		Full fair values positive market values		Full fair values negative market values	
€m	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
Banks in the OECD	335,014.9	241,133.5	4,670.6	4,241.2	5,863.5	4,855.1
Public sector entities in the OECD	12,378.7	10,057.0	996.1	949.6	161.7	146.0
Other counterparties	406,885.1	352,257.2	6,136.8	5,103.9	6,518.9	5,572.9
Total	**754,278.7**	**603,447.7**	**11,803.5**	**10,294.7**	**12,544.1**	**10,574.0**

Derivative transactions – volume – non-trading portfolio

	Nominal value		Full fair values positive market values		Full fair values negative market values	
€m	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
Interest rate risks						
OTC products						
Interest rate swaps	23,615.4	24,871.8	772.2	954.8	495.2	574.8
Caps, floors	–	10.0	–	–	–	–
Other interest rate futures	20.0	25.0	–	0.9	–	–
Exchange traded products						
Interest rate futures/ options on interest rate futures	360.3	4,380.7	–	3.2	2.4	0.1
Sub-Total	**23,995.7**	**29,287.5**	**772.2**	**958.9**	**497.6**	**574.9**
Currency risks						
OTC products						
Foreign exchange future contracts	4,228.6	2,010.7	19.2	4.2	10.6	28.5
Interest rate/currency swaps	10,534.9	7,603.4	313.4	412.9	351.3	382.2
Sub-Total	**14,763.5**	**9,614.1**	**332.6**	**417.1**	**361.9**	**410.7**
Share and other price risks						
OTC products						
Share options						
Purchases	160.0	160.0	2.2	5.4	–	–
Sales	–	–	–	–		–
Credit derivatives	286.9	233.1	1.1	1.1	0.8	4.2
Exchange traded products						
Share options	304.5	112.5	14.8	6.2	–	–
Share futures	56.9	31.0	1.0	0.1	0.1	0.2
Sub-Total	**808.3**	**536.6**	**19.1**	**12.8**	**0.9**	**4.4**
Total	**39,567.5**	**39,438.2**	**1,123.9**	**1,388.8**	**860.4**	**990.0**

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

Furthermore, a provision for possible losses in the amount of €6.7m was recognised as at the reporting date.

Under EU Regulation No. 648/2012 (EMIR), there is a requirement to perform certain OTC derivate transactions through a central counterparty. The daily settlement of gains and losses to be carried out in this process (variation margin) results in a net liability for the non-trading portfolio of €291.4m. This is recognised in amounts 'Due to customers'.

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

	Interest rate risks		Currency risks		Share and other price risks	
€m	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
Residual term to maturity						
less than 3 months	817.3	1,436.6	4,484.2	2,021.1	228.9	31.0
> 3 months to 1 year	2,250.8	5,001.7	681.0	1,112.2	433.0	210.0
> 1 year to 5 years	11,377.9	14,365.0	6,654.7	4,857.6	146.4	183.1
> than 5 years	9,549.7	8,484.2	2,943.6	1,623.2	–	112.5
Total	**23,995.7**	**29,287.5**	**14,763.5**	**9,614.1**	**808.3**	**536.6**

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 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
Banks in the OECD	16,882.6	16,239.6	368.4	491.5	366.1	468.4
Public sector entities in the OECD	8.8	10.3	–	–	0.9	1.5
Other counterparties	22,676.1	23,188.3	755.5	897.3	493.4	520.1
Total	**39,567.5**	**39,438.2**	**1,123.9**	**1,388.8**	**860.4**	**990.0**

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			
DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg	100.00	590,946.1	57,226.2
Deka Investment GmbH, Frankfurt/Main	100.00	93,183.1	172,731.8[3]
Deka Immobilien GmbH, Frankfurt/Main	100.00	38,764.7	57,812.4[3]
S Broker AG & Co. KG, Wiesbaden	100.00	32,521.7	2,112.4
Deka Immobilien Investment GmbH, Frankfurt/Main	100.00	31,245.1	69,221.9[3]
Deka Vermögensmanagement GmbH, Frankfurt/Main (formerly: Landesbank Berlin Investment GmbH, Berlin)	100.00	10,660.0	10,100.6[3]
Deka Beteiligungsgesellschaft mbH, Frankfurt/Main	100.00	4,740.6	– 1,493.6
bevestor GmbH, Frankfurt/Main	100.00	3,600.0	– 5,784.8[3]
Deka Vermögensverwaltungs GmbH, Frankfurt/Main	100.00	365.4	– 27.1[3]
Deka Investors Spezial InvAG m.v.K. u. TGV (TGV Unternehmensaktien), Frankfurt/Main	100.00	255.2	– 6.3
Deka Treuhand GmbH, Frankfurt/Main	100.00	132.4	11.8
Privates Institut für quantitative Kapitalmarktforschung der DekaBank GmbH, Frankfurt/Main	100.00	49.3	– 0.2[3]
LBG Leasing Beteiligungs-GmbH, Frankfurt/Main	100.00	31.6	– 0.2
Deka Treuhand Erwerbsgesellschaft mbH, Frankfurt/Main	100.00	25.0	– 8.0[3]
Deka Vorratsgesellschaft 03 mbH, Frankfurt/Main	100.00	24.8	– 0.2[3]
Deka Vorratsgesellschaft 04 mbH, Frankfurt/Main	100.00	24.8	– 0.2[3]
Deka Vorratsgesellschaft 05 mbH, Frankfurt/Main	100.00	24.8	– 0.2[3]
Deka Verwaltungs GmbH, Frankfurt/Main	100.00	21.5	12.9
WestInvest Gesellschaft für Investmentfonds mbH, Düsseldorf	99.74	11,338.6	22,459.4[3]
WIV GmbH & Co. Beteiligungs KG, Frankfurt/Main	94.90	12,853.2	753.2
WIV Verwaltungs GmbH, Frankfurt/Main	94.90	71.2	2.3
Equity investments			
Dealis Fund Operations GmbH i.L., Frankfurt/Main	50.00	32,011.4	13,426.9
S-PensionsManagement GmbH, Cologne	50.00	26,677.0	234.4
Deka-Neuburger Institut für wirtschaftsmathematische Beratung GmbH, Frankfurt/Main	50.00	18.0	0.6
Indirect shares in affiliated companies			
Deka International S.A., Luxembourg	100.00	109,910.4	32,447.0
International Fund Management S.A., Luxembourg	100.00	13,316.8	3,657.5
Deka Immobilien Luxembourg S.A., Luxembourg	100.00	1,944.6	– 148.5
Deka Real Estate Services USA Inc., New York	100.00	1,210.9	1,002.5
S Broker Management AG, Wiesbaden	100.00	291.3	227.8
Deka Far East Pte. Ltd., Singapore	100.00	216.2	24.6
Deka Real Estate International GmbH (formerly: Deka Immobilien Beteiligungsgesellschaft mbH), Frankfurt/Main	100.00	176.8	11.6
Indirect equity investments			
Sparkassen Pensionskasse AG, Cologne	50.00	88,422.4	970.0
Sparkassen Pensionsfonds AG, Cologne	50.00	4,159.2	– 625.3
Heubeck AG, Cologne	30.00	6,408.0	2,072.0
Richttafeln-Unterstützungskasse GmbH, Cologne	30.00	232.0	32.0
Compendata Gesellschaft zur Verwaltung von Vorsorgeeinrichtungen mbh, Cologne	30.00	199.0	5.0
Dr. Heubeck Ges. mbH, Viena	30.00	166.0	9.0
Heubeck Richttafeln GmbH, Cologne	30.00	127.0	16.0
DPG Deutsche Performancemessungs-Gesellschaft für Wertpapierportfolios mbH, Frankfurt/Main	22.20	3,994.4	709.5

[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. 20 HGB
[3] A profit transfer agreement has been concluded with these companies.

Off-balance sheet contingent liabilities

5 Letter of comfort

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

6 Other financial commitments

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

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

There is an additional funding obligation for the security reserve of the Landesbanken and Girozentralen of €62.4m (previous year: €57.7m). By 2024, the assets of the security reserve must be increased to the statutory target level of 0.8% of the covered deposits of its member institutions. The security reserve collects annual levies from its members for this purpose.

Notes to the balance sheet

7 Due from banks

€m	31 Dec 2018	31 Dec 2017
This item includes:		
Receivables		
to affiliated companies	56.6	22.4
to companies in which an interest is held	4.4	37.7
Subordinated loans	**0.0**	**0.0**
Sub item b (other claims) – breaks down according to residual term to maturity as follows:	**7,066.8**	**6,093.0**
less than 3 months	2,727.3	1,508.0
> 3 months to 1 year	1,031.1	915.7
> 1 year to 5 years	2,314.7	2,439.3
> than 5 years	993.7	1,230.0
Used as cover funds	**443.5**	**648.9**

8 Due from customers

€m	31 Dec 2018	31 Dec 2017
This item includes:		
Receivables		
to affiliated companies	321.5	302.4
to companies in which an interest is held	10.9	56.5
Subordinated loans	**0.0**	**0.0**
This item – Due to customers – breaks down by residual term to maturity as follows:	**20,889.9**	**17,125.2**
with indefinite term to maturity	760.6	499.2
less than 3 months	1,729.2	1,168.9
> 3 months to 1 year	1,350.9	1,007.7
> 1 year to 5 years	10,220.5	9,254.2
> than 5 years	6,828.7	5,195.2
Used as cover funds	**3,060.5**	**2,845.5**

9 Bonds and other fixed-interest securities

€m	31 Dec 2018	31 Dec 2017
This item includes:		
Marketable securities		
listed	13,243.2	16,346.1
unlisted	1,848.0	1,189.8
Subordinated securities	**6.4**	**336.7**
Securities due within one year	**2,452.2**	**3,511.8**
Used as cover funds	**335.5**	**337.1**
Book value of securities valued according to the diluted lower of cost or market principle	4,846.6	3,364.0
Book value of securities reported at more than fair value	2,895.3	523.1
Market value of securities reported at more than fair value	2,849.0	522.5

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

10 Shares and other non-fixed interest securities

€m	31 Dec 2018	31 Dec 2017
This item includes:		
Marketable securities		
listed	2.9	0.0
unlisted	578.6	465.9
Subordinated securities	–	–

11 Trading portfolio (assets)

This item breaks down as follows:

€m	31 Dec 2018	31 Dec 2017
Derivative financial instruments	4,611.5	5,006.5
Receivables	19,766.1	21,529.3
Debt securities and other fixed-interest securities	9,255.8	5,858.9
Shares and other non fixed-interest securities	1,510.9	2,375.1
Other assets	1.4	4.6
Risk mark-down	–24.1	–18.2
Total	**35,121.6**	**34,756.2**

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 €60.3m and amounts due from customers of €82.9m.

15 Tangible assets

This item comprises property, plant and equipment amounting to €14.2m (previous year: €14.4m).

16 Changes in fixed assets

€m						Carrying value	
Asset items	**Cost of acquisition/ production**	**Additions**	**Disposals**	**Accumu-lated de-preciation**	**Depre-ciation for the year**	**31 Dec 2018**	**31 Dec 2017**
		Changes +/– [1]					
Equity investments			−0.4			22.1	22.5
Shares in affiliated companies			−7.7			465.1	472.8
Securities held as fixed assets			1,466.5			4,846.6	3,380.1
Intangible assets	151.7	3.0	0.0	138.8	8.7	15.9	21.6
Property, plant and equipment	60.9	1.4	0.1	48.0	1.5	14.2	14.4
Total						**5,363.9**	**3,911.4**

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

17 Other assets

€m	31 Dec 2018	31 Dec 2017
This item includes amongst others:		
Tax refund claims	152.5	152.3
Foreign exchange equalisation items	95.5	100.4
Premiums paid and margins for derivative financial instruments	22.9	8.0

18 Prepaid expenses and accrued income

€m	31 Dec 2018	31 Dec 2017
This item includes:		
Premium/discount from underwriting and lending business	62.2	22.8
Prepaid expenses and accrued income – derivative financial instruments	346.3	373.9

19 Genuine repurchase agreements

As at 31 December 2018, the book value of lent securities or securities sold under repurchase agreements amounts to €2,651.8m (previous year: €1,259.6m). Pass-through securities lending transactions of €10,458.2m (previous year: €7,315.7m) 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 2018	31 Dec 2017
Due to banks	1,246.2	272.8
Due to customers	625.1	546.7
Trading portfolio (liabilities)	14,626.5	14,369.2

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 €2,559.0m (previous year: €1,096.1m) were pledged as collateral for transactions on German and foreign futures exchanges.

21 Investment Shares

€m	Carrying value 31 Dec 2017	Market value 31 Dec 2018	Difference market value–carrying value	Distribution 2018	Daily redemption possible	Omitted depreciation
Equity funds	101.4	104.0	2.6	2.3	Yes	No
Bond funds	427.1	427.1	0.0	5.3	Yes	No
Mixed funds	2,276.7	2,461.3	184.6	0.0	Yes	No
Funds of funds	1.4	1.4	0.0	0.0	Yes	No
Other funds	792.8	805.5	12.7	3.5	No	No
Real estate funds	72.5	72.8	0.3	0.1	No	No
Total	**3,671.9**	**3,872.1**	**200.2**			

22 Due to banks

€m	31 Dec 2018	31 Dec 2017
This item includes:		
Liabilities		
to affiliated companies	3,405.1	3,119.5
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	6,446.8	4,942.1
> 3 months to 1 year	4,809.5	4,469.8
> 1 year to 5 years	3,768.1	3,722.9
> than 5 years	590.4	938.8
	15,614.8	**14,073.6**

23 Due to customers

€m	31 Dec 2018	31 Dec 2017
This item includes:		
Liabilities to		
affiliated companies	609.1	386.0
companies in which an interest is held	3,405.9	154.7
Sub item b (with agreed maturity or period of notice) breaks down by residual term to maturity as follows:		
less than 3 months	1,750.7	2,299.0
> 3 months to 1 year	2,881.9	2,176.6
> 1 year to 5 years	3,153.7	2,148.7
> than 5 years	1,472.1	1,674.3
	9,258.4	**8,298.6**

24 Securitised liabilities

€m	31 Dec 2018	31 Dec 2017
Proportion of sub item a (issued bonds) maturing in the following year	**1,687.3**	**3,458.9**
Sub item b (other securitised liabilities) breaks down by residual term to maturity as follows:		
less than 3 months	7,478.0	6,163.7
> 3 months to 1 year	1,747.0	200.3
	9,225.0	**6,364.0**

25 Trading portfolio (liabilities)

This item breaks down as follows:

€m	31 Dec 2018	31 Dec 2017
Derivative financial instruments	5,408.4	5,332.3
Liabilities	31,111.9	27,419.4
Total	**36,520.3**	**32,751.7**

26 Trust liabilities

Trust liabilities comprise €60.3m in amounts due to banks and €82.9m in amounts due to customers.

27 Other liabilities

€m	31 Dec 2018	31 Dec 2017
This item includes:		
Bonuses for sales offices	105.0	107.8
Trade payables	42.5	46.3
Share of profit attributable to atypical silent partners	96.4	79.8
Due to custodial customers	6.9	58.0

28 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 2018
Pension trend for adjustments according to Section 16 (2) Company Pensions Fund Act (BetrAVG)	1.75
Pension adjustment with overall trend updating	2.25
Salary trend	2.50

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

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

Provisions for pensions and similar commitments are discounted at the average market interest rate of the past 10 years published by Deutsche Bundesbank for an assumed residual time to maturity of 15 years. This interest rate stands at 3.21%. 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 €66.5m.

€m	31 Dec 2018	31 Dec 2017
Provisions for pensions	**23.5**	**0.0**
Acquisition cost of plan assets	337.8	329.0
Fair value of plan assets	449.4	460.5
Settlement amount of offset liabilities	472.9	440.9
Income from plan assets	– 19.6	16.4
Expenses for accumulated interest	16.0	16.2
Excess of plan assets over pension liabilities	**0.0**	**19.6**

The valuation of cover assets at fair value produces an amount that exceeds the historical cost of these assets of €111.6m, which is not blocked for distribution in accordance with Section 268 (8) HGB, since the free reserves of the company exceed this figure.

Use of the Heubeck 2018 G mortality tables results in an increase of €2.6m in provisions for pensions.

29 Accruals and deferred income

€m	31 Dec 2018	31 Dec 2017
This item includes:		
Premium/discount from underwriting and lending business	13.5	10.1
Prepaid expenses and accrued income – derivative financial instruments	203.2	241.9

30 Subordinated liabilities

€m	31 Dec 2018	31 Dec 2017
Expenses from subordinated liabilities	64.9	65.2
Accrued interest on subordinated liabilities	43.3	43.0

Borrowings structured as follows:

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

There were no new issues during the 2018 financial year.

31 Equity

The breakdown of equity (excluding profits intended

€m	31 Dec 2018	31 Dec 2017
a) Subscribed capital		
Subscribed capital	191.7	191.7
Typical silent capital contributions	0.0	26.4
Atypical silent capital contributions	52.4	52.4
b) Capital reserve	189.4	189.4
c) Retained earnings		
Reserves required by the Bank’s statutes	51.3	51.3
Other reserves from retained earnings	114.1	114.1
Balance sheet equity	**598.8**	**625.3**

32 Contingent and other liabilities

The off-balance sheet contingent liabilities amounting to €4,044.5m (previous year: €3,295.0m) 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 €3,715.9m (previous year: €3,093.6m) and irrevocable loan commitments of €2,144.9m (previous year: €1,708.0m). 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 were recognised in individual cases where the default of the borrower is likely.

33 Foreign currency volumes

€m	31 Dec 2018	31 Dec 2017
Foreign currency assets	19,436.1	15,540.2
Foreign currency liabilities	8,644.2	7,903.1

Notes to the income statement

34 Net interest income from trading portfolio

€28.5m (previous year: €20.4m) of the net income from the trading portfolio totalling €256.4m (previous year: €183.5m) was transferred to the fund for general banking risks in the reporting year.

35 Other operating income

Other operating income consists mainly of €294.2m from Group offsetting and €5.1m from the reversal of provisions (including interest effect).

36 Other operating expenses

Among other things, this item includes €51.2m in transfers to provisions (including interest effect), €8.2m from Group offsetting as well as the currency translation result of €8.1m from non-trading portfolio items.

37 Auditor’s fees

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

38 Income taxes

As DekaBank is treated for tax purposes as an atypical silent partnership, DekaBank only accrues corporation tax to the extent that taxable income is not allocated to atypical silent partners. Taking into account the Bank’s existing own shares in subscribed capital (acquired in the first half of 2011), the holdings of atypical silent partners in taxable income is 45.6%. This results in a combined tax rate of 24.68% for the companies in the DekaBank fiscal group. However, in return for the allocation of the tax base, atypical silent partners are entitled to allocate to DekaBank the corporation tax expense attributable to them (45.6% of 15.0%

corporation tax plus solidarity surcharge thereon, in total 7.22%), meaning that DekaBank pays an amount equal to the tax expense to the atypical silent partners and from an economical point of view bears this part of the tax expense, as well. Thus, in order to achieve better comparability, the portion of the corporation tax expense attributable to the atypical silent partners is also reported as tax expense.

The applicable combined tax rate (trade tax plus corporation tax and solidarity surcharge) therefore totals 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). Based on a preliminary analysis, it cannot be ruled out that some share trades carried out by DekaBank around the dividend record date in the years concerned will be re-examined by the tax authorities in the light of the said BMF circular. However, DekaBank sees no convincing reason to believe that share trades it transacted around the dividend record date will fall under these rules 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 possible that legal action may have to be taken in order to uphold this legal position. The risk assessment did not fundamentally change in the reporting period compared with the previous year. Voluntary advance payments were made to limit any accrual of interest. This meant that provisions were reduced to approximately €19m in total.

39 Management and intermediary services for third parties

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

Information relating to *Pfandbrief* business

40 Calculation of cover for mortgage and public sector lending business

Mortgage *Pfandbriefe*

Outstanding Pfandbriefe and cover pool assets

	Nominal value		Net present value[1]	
€m	2018	2017	2018	2017
Outstanding mortgage Pfandbriefe	79.5	79.5	80.1	80.1
Cover pool mortgage Pfandbriefe	467.7	417.1	494.8	442.6
Overcollateralization	388.2	337.6	414.7	362.4
Overcollateralization as a % of outstanding	488.3	424.6	517.8	452.2

[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	2018	2017	2018	2017	2018	2017
Outstanding mortgage Pfandbriefe	76.9	75.1	83.5	85.7	76.9	75.1
Cover pool mortgage Pfandbriefe	453.4	409.3	542.9	481.8	453.4	409.3
Overcollateralization	376.5	334.2	459.4	396.1	376.5	334.2
Overcollateralization as a % of outstanding	489.5	444.8	550.2	462.3	489.5	444.8

[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	2018	2017	2018	2017
up to 6 months	0.0	0.0	0.0	0.0
> 6 months to 12 months	30.0	0.0	0.0	29.3
> 12 months to 18 months	0.0	0.0	0.0	0.0
> 18 months to 2 years	29.5	30.0	67.1	0.0
> 2 years to 3 years	10.0	29.5	74.5	122.5
> 3 years to 4 years	10.0	10.0	110.9	74.5
> 4 years to 5 years	0.0	10.0	71.9	36.2
> 5 years to 10 years	0.0	0.0	143.3	154.5
> 10 years	0.0	0.0	0.0	0.0
Total	**79.5**	**79.5**	**467.7**	**417.1**

Breakdown of cover pool assets by size

	Total nominal value	
€m	2018	2017
Ordinary cover:		
up to €0.3m[1]	0.0	0.0
> €0.3m to €1.0m[1]	0.8	0.8
> €1.0m to €10.0m[1]	41.6	26.7
> €10.0m[1]	415.3	319.6
	457.7	**347.1**
Other cover pool assets[1]	10.0	70.0
Total	**467.7**	**417.1**

[1] secured by mortgages

Additional information

	2018	2017
Share of fixed-interest assets outstanding (in %)	100.0	100.0
Share of fixed-interest assets in cover pool (in %)	82.2	72.9
Volume-weighted average age of receivables (in years)	3.3	2.4
Average weighted mortgage loan-to-value (in %)	58.0	56.6

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

Total amount of additional cover pool assets

€m	2018	2017
Cover pool assets according to Section 19 (1) no. 2 PfandBG		
based in: Germany	10.0	70.0
thereof exposure in covered bonds according to Article 129 Regulation (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	2018	2017	2018	2017	2018	2017
Commercial use	217.0	231.7	240.7	115.3	457.7	347.1
Other cover pool assets[1]	10.0	70.0	0.0	0.0	10.0	70.0
Total	**227.0**	**301.7**	**240.7**	**115.3**	**467.7**	**417.1**

[1] Including mandatory overcollateralization/safeguarding liquidity

Breakdown of cover pool assets by type of building

Total amounts	Federal Republic of Germany		France		Total	
€m	2018	2017	2018	2017	2018	2017
Office buildings	106.1	106.1	196.9	115.3	303.0	221.5
Retail buildings	0.0	29.3	43.8	0.0	43.8	29.3
Other commercial buildings	110.9	96.3	0.0	0.0	110.9	96.3
Other cover pool assets[1]	10.0	70.0	0.0	0.0	10.0	70.0
Total	**227.0**	**301.7**	**240.7**	**115.3**	**467.7**	**417.1**

[1] Including mandatory overcollateralization/safeguarding liquidity

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

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

As in the previous year, no foreclosure sales were carried out in financial year 2017.

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	2018	2017	2018	2017
Outstanding public sector Pfandbriefe	2,382.2	2,301.3	2,661.7	2,671.0
Cover pool public sector Pfandbriefe	3,380.2	3,414.4	3,654.2	3,733.9
Overcollateralization	998.0	1,113.1	992.5	1,062.9
Overcollateralization as a % of outstanding	41.9	48.4	37.3	39.8

[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	2018	2017	2018	2017	2018	2017
Outstanding public sector Pfandbriefe	2,417.2	2,432.1	2,962.2	2,968.9	2,932.3	2,939.0
Cover pool public sector Pfandbriefe	3,395.1	3,519.7	3,977.6	3,989.2	3,875.3	3,861.1
Overcollateralization	977.8	1,087.5	1,015.4	1,020.2	943.0	922.1
Overcollateralization as a % of outstanding	40.5	44.7	34.3	34.4	32.2	31.4

[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	2018	2017	2018	2017
up to 6 months	292.0	192.9	294.1	267.9
> 6 months to 12 months	163.0	336.0	0.2	106.3
> 12 months to 18 months	72.0	342.0	224.1	299.5
> 18 months to 2 years	232.6	163.0	64.5	0.5
> 2 years to 3 years	150.1	129.6	390.4	230.6
> 3 years to 4 years	290.0	149.1	212.0	411.9
> 4 years to 5 years	395.0	290.0	287.3	265.4
> 5 years to 10 years	540.4	389.4	1,562.9	1,655.5
> 10 years	247.1	309.3	344.8	176.8
Total	**2,382.2**	**2,301.3**	**3,380.2**	**3,414.4**

Breakdown of cover pool assets by size

€m	Total nominal value 2018	Total nominal value 2017
Ordinary cover:		
up to €10.0m	58.3	36.6
> €10.0m to €100.0m	1,305.1	1,031.9
> €100.0m	1,976.9	2,305.9
	3,340.2	**3,374.4**
Other cover pool assets[1]	40.0	40.0
Total	**3,380.2**	**3,414.4**

Additional information

	2018	2017
Share of fixed-interest assets outstanding (in %)	92.7	92.8
Share of fixed-interest assets in cover pool (in %)	64.1	60.2
Net present values for each foreign currency in €m:		
USD	169.0	255.3

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

Total amount of additional cover pool assets

€m	2018	2017
Cover pool assets according to Section 20 (2) no. 2 PfandBG		
based in: Germany	40.0	40.0
thereof exposure in covered bonds according to Article 129 Regulation (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	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Federal Republic of Germany	240.5	298.8	372.7	456.6	613.9	398.4	983.0	973.7	2,210.1	2,127.5
France	29.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	29.5	0.0
Canada	0.0	0.0	95.5	112.1	0.0	0.0	0.0	0.0	95.5	112.1
Latvia	0.0	0.0	0.0	0.0	100.5	111.7	0.0	0.0	100.5	111.7
Netherlands	165.4	170.2	0.0	0.0	0.0	0.0	0.0	0.0	165.4	170.2
Norway	75.0	87.5	0.0	0.0	0.0	0.0	0.0	0.0	75.0	87.5
Poland	50.0	50.0	0.0	0.0	0.0	0.0	0.0	0.0	50.0	50.0
United States of America	246.5	268.7	0.0	0.0	0.0	0.0	0.0	0.0	246.5	268.7
United Kingdom of Great Britain and Northern Ireland	367.8	446.8	0.0	0.0	0.0	0.0	0.0	0.0	367.8	446.8
Total	**1,174.6**	**1,322.0**	**468.2**	**568.6**	**714.4**	**510.1**	**983.0**	**973.7**	**3,340.2**	**3,374.4**

Of which: guarantees from export credit agencies

€m	2018	2017
Federal Republic of Germany	240.5	298.8
France	29.5	0.0
Canada	0.0	0.0
Latvia	0.0	0.0
Netherlands	165.4	170.2
Norway	75.0	87.5
Poland	0.0	0.0
United States of America	246.5	268.7
United Kingdom of Great Britain and Northern Ireland	367.8	446.8
Total	**1,124.6**	**1,272.0**

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

Other information

41 Average number of staff

Number	2018			2017		
	Male	Female	Total	Male	Female	Total
Full-time employees	1,625	669	2,294	1,583	662	2,245
Part-time and temporary employees	110	433	543	91	398	489
Total	**1,735**	**1,102**	**2,837**	**1,674**	**1,060**	**2,734**

42 Remuneration of Board members

€	2018	2017
Remuneration of active Board members		
Board of Management	5,357,125	5,181,973
Administrative Board	711,333	709,417
Remuneration paid to former Board members and surviving dependants		
Board of Management	3,895,011	4,379,713
Provisions for pension commitments to these persons	45,105,269	43,068,258

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 2018, variable remuneration elements in the amount of €2.2m (previous year: €2.4m) were committed to active members of the Board of Management, which are dependent on future performance.

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

Distributable earnings, corporate value, the economic result, payments to savings bank alliance partners, net sales performance and the individual contribution of the Board Members are used to determine sustainability. This means that the sustainable components of remuneration are subject to a malus rule and the entire variable remuneration components are subject to a clawback rule.

The total benefits include deferred variable remuneration components from active members of the Board of Management in the amount of €2.1m and due to previous members of the Board of Management in the amount of €0.8m. Active members of the Board of Management are to receive an amount of €0.4m for financial year 2017, €0.7m for financial year 2016, €0.4m for financial year 2015, €0.3m for financial year 2014, €0.2m for financial year 2013 and €0.1m for financial year 2012.

43 Loans to board members

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

44 Post balance sheet events

No major developments of particular significance occurred after the 2018 balance sheet date.

45 Recommendation regarding appropriation of net profit

The proposed appropriation of net profit for the 2018 financial year amounting to €63,270,682.38 is as follows:

- Distribution of a dividend amounting to €59,436,095.57, i.e. 31.0% on existing shares in the Bank's subscribed capital (€191,729,340.56) that are entitled to dividends as at 31 December 2018.
- Distribution of a special dividend amounting to €3,834,586.81, i.e. 2.0% on existing shares in the Bank's subscribed capital (€191,729,340.56) that are entitled to dividends as at 31 December 2018.

Seats on supervisory bodies

46 Notes to seats on supervisory bodies (as at 31.01.2019)

Michael Rüdiger (Chairman of the Board of Management)		
Chairman of the Supervisory Board	Deka Investment GmbH	Frankfurt/Main
Member of the Supervisory Board (from 01.01.2018 until 14.01.2018) Chairman of the Supervisory Board (from 15.01.2018)	Deka Vermögensmanagement GmbH (from 10.04.2018) (until 09.04.2018: Landesbank Berlin Investment GmbH)	Frankfurt/Main Berlin
Member of the Supervisory Board	Evonik Industries AG	Essen
Member of the Supervisory Board	Deka Immobilien GmbH	Frankfurt/Main
Chairman of the Administrative Board (until 23.07.2018)	Liquiditäts-Konsortialbank GmbH i.L.	Frankfurt/Main

Dr. Georg Stocker (Deputy Chairman of the Board of Management)		
Chairman of the Supervisory Board	S Broker AG & Co. KG	Wiesbaden
Chairman of the Supervisory Board	S Broker Management AG	Wiesbaden

Manuela Better (Member of the Board of Management)		
Member of the Supervisory Board	Deutsche EuroShop AG	Hamburg
Deputy Chairman of the Supervisory Board	S Broker AG & Co. KG	Wiesbaden
Member of the Supervisory Board	S Broker Management AG	Wiesbaden
Deputy Chairman of the Supervisory Board	Deka Vermögensmanagement GmbH (from 10.04.2018) (until 09.04.2018: Landesbank Berlin Investment GmbH)	Frankfurt/Main Berlin
Deputy Chairman of the Supervisory Board	Deka Investment GmbH	Frankfurt/Main
Deputy Chairman of the Supervisory Board	Deka Immobilien Investment GmbH	Frankfurt/Main
Deputy Chairman of the Supervisory Board	WestInvest Gesellschaft für Investmentfonds mbH	Düsseldorf
Deputy Chairman of the Supervisory Board	Deka Immobilien GmbH	Frankfurt/Main
Member of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg

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

Martin K. Müller (Member of the Board of Management)		
Chairman of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Member of the Supervisory Board	Sparkassen Rating und Risikosysteme GmbH	Berlin
Member of the Shareholder Committee (until 01.10.2018)	Dealis Fund Operations GmbH i.L.	Frankfurt/Main
Managing Director	Deka Treuhand Erwerbsgesellschaft mbH	Frankfurt/Main

47 Notes to the Board members of DekaBank Deutsche Girozentrale (as at 31.01.2019)

Board of Management

Michael Rüdiger
Chairman of the Board of Management

Dr. Georg Stocker
Deputy Chairman of the Board of Management

Manuela Better
Member of the Board of Management

Dr. Matthias Danne
Member of the Board of Management

Martin K. Müller
Member of the Board of Management

Administrative Board

Helmut Schleweis
Chairman
(from 01.01.2018)
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
(until 31.03.2018)
First Deputy Chairman
(01.04.2018 to 31.12.2018)
Member
(01.01.2019 to 14.01.2019)
First Deputy Chairman
(from 15.01.2019)
Federal Chairman and Chairman of the Board of
Management of Sparkasse Niederbayern Mitte

Thomas Mang
Second Deputy Chairman
(until 31.12.2018)
Member
(01.01.2019 to 14.01.2019)
Second Deputy Chairman
(from 15.01.2019)
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
(from 01.01.2018)
Chairman of the Board of Management
of Kasseler Sparkasse

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

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

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

Ralf Fleischer
(from 01.06.2018)
Chairman of the Board of Management of Stadt-
sparkasse München

Andreas Fohrmann
Chairman of the Board of Management of
Sparkasse Südholstein

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

Dr. Christoph Krämer
Chairman of the Board of Management
of Sparkasse Iserlohn

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

Ludwig Momann
Chairman of the Board of Management of Sparkasse Emsland

Dr. Ulrich Netzer
President of the Savings Banks Associaton 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

Erika Ringel
Member of the Staff Committee of DekaBank Deutsche Girozentrale

Representatives appointed by the Federal Organisation of Central Municipal Organisations

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
Mayor of the City of Bergkamen and 1st Vize 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, 22. February 2019

DekaBank
Deutsche Girozentrale

The Board of Management

Rüdiger

Dr. Stocker

Better

Dr. Danne

Müller

Independent Auditor’s Report

To DekaBank Deutsche Girozentrale AöR, Berlin/Frankfurt/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/Main, which comprise the balance sheet as of December 31, 2018 and the income statement for the financial year from January 1, 2018 to December 31, 2018, 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 January 1, 2018 to December 31, 2018.

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 business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as of December 31, 2018 and of its financial performance for the financial year from January 1, 2018 to December 31, 2018 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 the non-financial statement and the corporate governance statement mentioned above.

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 judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1, 2018 to December 31, 2018. 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 of December 31, 2018, DekaBank recognized a trading portfolio of EUR 35.1 billion. At 35.0% of total assets this represents a significant 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 the fact that no proper market prices, valuation methods and models as well as the valuation parameters incorporated as part of this are used when measuring the 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 controls 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 the independent verification of quoted prices and observable market data,
- the validation of the valuation method and models as well as
- 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.

With the involvement of internal KPMG valuation experts we carried out, inter alia, the following substantive audit procedures for portfolios of securities and derivatives selected based on a risk-oriented approach as of December 31, 2018:

- Carrying out an independent price verification if a quoted price on an active market exists.
- Where there are no quoted prices on an active market, we performed a re-evaluation using independent valuation methods, parameters and models.
- 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 36.4% (EUR 36.5 billion) of DekaBank's total equity and liabilities, thus constituting a material item on its balance sheet; it includes liabilities from the issuance of certificates that are valued on the basis of observable and non-observable input parameters.

The financial statement risk could lie in particular in there being no proper market prices, valuation methods and models, as well as valuation parameters incorporated therein, used when measuring the 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 controls 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 and observable 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.

With the involvement of internal KPMG valuation experts we carried out, inter alia, the following substantive audit procedures for certificates selected based on a risk-oriented approach as of December 31, 2018:

- Re-evaluation using independent valuation methods, parameters and models. In this process, we covered the material product-model combinations used by DekaBank.
- Assessment of model reserves that are set aside for model uncertainties.
- Assessment of the discount curves (preferred/non-preferred) used for the valuation of certificates for which judgment is exercised in respect of DekaBank's own credit spreads.
- Assessment of the correct assignment of certificates to the newly introduced preferred/non-preferred discount curves based on the new legislation pursuant to section 46f KWG [Kreditwesengesetz: German Banking Act].

OUR OBSERVATIONS

The valuation methods and models used by DekaBank to value liabilities from the issuance of certificates are appropriate. The parameters incorporated were properly derived.

Other Information

The Board of Management is responsible for the other information. The other information comprises the remaining parts of the annual report, with the exception of the audited annual financial statements and management report and our auditor’s report.

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 so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Board of Management and the Administrative Board for the Annual Financial Statements and the Management Report

The Board of 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 business corporations, 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, the Board of 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, the Board of 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, the Board of Management is responsible for the preparation of the 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, the Board of 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 judgment and maintain professional skepticism 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 of the Company.
- Evaluate the appropriateness of accounting policies used by the Board of Management and the reasonableness of estimates made by the Board of Management and related disclosures.
- Conclude on the appropriateness of the Board 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 the Board of Management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Board of 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

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on March 21, 2018. We were engaged by the Administrative Board on April 28, 2018. We have been the auditor of the DekaBank Deutsche Girozentrale AöR, Berlin/Frankfurt/Main, without interruption since the 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 services that are not disclosed in the annual financial statements or in the management report.

We performed an audit review of the interim (half-year) financial report. 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 (e.g. investment compliance testing), issuing of letters of comfort as well as other assurance services required by supervisory law and tax advisory services for Asset Management, which were approved by the Audit Committee.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Markus Fox.

Frankfurt/Main, February 25, 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

Pukropski	Fox
Wirtschaftsprüfer [German Public Auditor]	Wirtschaftsprüfer [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.

Advisory/management mandate

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

Cost/income ratio (CIR)

In the Deka Group, this indictor is calculated from the ratio of total expenses (excluding restructuring expenses) to total income (excl. risk provisions in the lending and securities business) in the financial year.

Economic result

As a key management indicator, together with economic risk, the economic result forms the basis for risk/return management in the Deka Group and is, in principle, determined in accordance with accounting and measurement policies of IFRS. As well as 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 (regulatory ratio)

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

Fund assets (according to BVI)

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

Internal capital

In the economic risk-bearing capacity analysis, internal capital potential essentially consists of equity under IFRS, income components and positions of a hybrid capital nature (subordinated capital/AT1 capital). It is available in its entirety as a formal overall risk limit to guarantee the Bank’s risk-bearing capacity.

Net funds inflow (according to BVI)

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

Net sales

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

Payments to the alliance partners

Payments made by the Deka Group to the savings banks and Landesbanken. These include the transfer of the front-end load from the sale of funds as well as the corresponding sales performance compensation, asset management fee and sales commission. The payments to the alliance partners also include the portions of certificate commission that are passed on.

Phase in (regulatory ratio)

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

Revaluation reserve

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

Risk-bearing capacity

As a basic principle, risk-bearing capacity is used to determine the maximum level of risk that can be incurred (impacting the income statement), taking into account risk concentrations. To assess risk-bearing capacity on a differentiated basis, DekaBank distinguishes between the risk capacity, the maximum risk appetite and the risk appetite. In the economic risk- bearing capacity analysis, risk capacity corresponds to the internal capital. It is available in its entirety as a formal overall risk limit to guarantee the Bank's risk-bearing capacity.

Based on this, a capital buffer is reserved for stress scenarios, which corresponds at a minimum to the level of subordinated capital components (including AT1 capital). The result is what is known as the maximum risk appetite, which forms the primary strategic management indicator. Taking into account other deductions (hidden liabilities and reserves, own credit quality effect, a buffer for model uncertainties, allocation reserve), this results in the risk appetite set by the Board of Management, which serves as the primary operational control parameter for the allocation of risk capital. The corresponding utilisation ratios for risk capacity, the maximum risk appetite, the risk appetite and the allocated risk capital may not exceed 100%.

Total customer assets

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

Wertpapierhaus

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

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 other respects contain forward-looking statements as well as expectations and forecasts. These are based on the information available to us at the time of publication, which we have deemed to be reliable after careful consideration. We do not assume an obligation to update based on new information and future events after the publication of this information. We have derived our estimations and conclusions from these forward-looking statements, expectations and forecasts. We expressly point out that all of our future-oriented statements are associated with known or unknown risks or imponderables and are based on conclusions relating to future events, which depend on risks, uncertainties and other factors that are outside of our area of influence. Such developments can result from, among other things, a change in the general economic situation, the competitive situation, the development of the capital markets, changes in the tax law and legal framework and from other risks. The events actually occurring in the future may thus turn out to be considerably different from our forward-looking statements, expectations, forecasts and conclusions. We can therefore assume no liability for their correctness and completeness or for the actual occurrence of the information provided. The English translation of the DekaBank Annual finacial statements is provided for convenience only. The German original is definitive.

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This report was finalised in April 2019

Produced in-house with firesys

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