Security creates confidence

Annual financial statements 2008

DekaBank
Deutsche Girozentrale

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Finanzgruppe

DekaBank

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DekaBank Deutsche Girozentrale

Management report 2008 of DekaBank Deutsche Girozentrale

At a glance

In 2008, the global economy and more specifically the financial sector faced major challenges. The dramatic worsening of the financial market crisis, in particular in the weeks following the insolvency of US investment bank Lehman Brothers, put extraordinary pressure on the markets and brought the entire financial system to the brink of a systemic crisis. The decline in assets originating in the subprime segment of the US real estate market spread rapidly, affecting practically all segments of the money and capital markets. Due to the significant level of distrust among financial institutions, the interbank market and major sections of the capital market dried up. The resulting funding difficulties threatened the existence of many banks across the globe. This in turn fuelled the crisis of confidence further and seriously unsettled investors. It was only extensive government rescue packages and concerted efforts by the central banks which were able to prevent the collapse of the system as a whole.

Against the backdrop of a largely disrupted market for capital market credit products, an outflow from investment funds on a massive scale, especially during the critical month of October, and difficult market conditions for property funds, the DekaBank Group could not achieve its original income target. However, the positive economic result of €71.5m testifies to the stability of our business model in the most difficult circumstances. Our consistent risk management has proved particularly helpful in these extreme market conditions. As part of Group-wide risk and income management, the economic result, which largely reflects the financial instruments in terms of their market values, and the economic risk on the basis of our comprehensive risk-bearing capacity model represent central control variables. Together, the two management concepts ensure a high level of transparency and enable us to identify risks at an early stage and analyse changes in income even in difficult market conditions. We did not need to take recourse to the Special Fund for Financial Market Stabilisation (SoFFin) set up by the German government and this fact highlights the stability and strength of our business model.

As an integrated and innovative service provider, we offer a comprehensive product portfolio in asset management and make liquidity available at all times for the funds and our partners within the *Sparkassen-Finanzgruppe* (Savings Banks Finance Group). Consequently, we have provided the best possible support to the savings banks and their customers and contributed to maintaining the stability and liquidity of the finance group in times of turmoil.

Despite the financial market crisis, net sales of €1.9bn for 2008 on the basis of our sales activities remained in the positive range without matching the previous year's figure of €12.4bn.

In the Asset Management Capital Markets (AMK) business division, safety-oriented products such as bond funds, mixed funds and guaranteed funds performed particularly well, despite the crisis month of October. At the same time, multi-asset funds established themselves as an attractive new asset class. However, as a result of the financial market crisis, the expected positive sales impact ahead of the introduction of the final withholding tax did not materialise to the extent anticipated.

In the Asset Management Property (AMI) business division, our strategy of strictly apportioned and investor-specific issuance of new unit certificates proved successful once again in financial year 2008. Despite the pressured environment, the bottom line is a positive sales performance for open-ended mutual property funds with comfortable liquidity ratios. In property finance, growth in the lending volume was intentionally below the scheduled figure. Nevertheless, syndication was expanded as scheduled despite the difficult conditions in the market. New subsidiaries and representative offices abroad have strengthened the presence of AMI at international level.

The Corporates & Markets (C&M) business division actively pursued its role as service provider and provider of impetus for Asset Management as well as its function as liquidity provider to the savings banks and *Landesbanken*. The traditional loan portfolio was managed successfully based on a risk-aware approach. We used the high credit spreads and a portion of free liquidity for providing secured finance to counterparties with good credit-standing. This enabled us to achieve positive income contributions and safeguard these for the coming years. Conversely, market developments resulted in valuation discounts on capital market credit products in the Liquid Credits portfolio and made higher risk provisions necessary, which impacted heavily on the result for the business division. The launch of institutional business with exchange traded index funds (ETFs) in the year under review was in line with our expectations.

At Group level, net interest income was significantly up on the previous year while net commission income was slightly down, mainly as a result of lower commission on existing business given market conditions. With regard to net financial income, net trading income increased thanks in part to the sharp rise in repo/lending business as well as income contributions from the investment of free liquidity while non-trading financial income reflects the impact on the Liquid Credits portfolio as a result of the worsening of the financial market crisis.

In financial year 2009, DekaBank intends to introduce a series of new elements into its proven business model. The plans in place include enhancing the range of AMK products for safe cash investments, establishing the new international AMI locations and expanding secured business and the repo/lending activities of C&M. The overriding objective remains to provide centralised services for the *Sparkassen-Finanzgruppe* by combining banking business with asset management, and offer professional support to its customers through every market phase. DekaBank is able to build on the continued high level of confidence placed in it by private and institutional customers and is well-positioned to recover asset losses recorded in 2008.

Profile of the DekaBank Group

DekaBank is the central asset manager for the *Sparkassen-Finanzgruppe*, the world's biggest financial network. As the partner of choice for the savings banks, *Landesbanken* and other companies within the alliance, DekaBank offers tailored products, solutions and services for implementing individual investment strategies in a variety of market scenarios. To this end, our fund products cover all major asset classes for private investors and institutional customers. In addition, our range of services encompasses lending, capital market-related trading and sales activities and Treasury business (asset/liability management, liquidity management and funding). Thanks to the close integration of its core competences in asset, credit and risk management, DekaBank achieves added value for its shareholders, sales partners and customers.

Legal structure and corporate governance

DekaBank is a German institution incorporated under public law with registered offices in Frankfurt/Main and Berlin. The *Deutscher Sparkassen- und Giroverband* (DSGV ö.K.) (German Savings Banks and Giro Association) and six *Landesbanken* are guarantors of DekaBank. DSGV and the *Landesbanken* both hold 50% equity stakes in DekaBank; the shares of the *Landesbanken* are held indirectly by GLB GmbH & Co. OHG (49.17%) and NIEBA GmbH (0.83%).

The DekaBank Group strictly adheres to the principles of responsible company management. The corporate governance principles for Group management and supervision define clear and distinct responsibilities for boards and committees and promote rapid decision-making. The Board of Management, which comprises six members, has overall responsibility for managing DekaBank. The members of the Board of Management are supported by management committees at business division level and Sales. The objective is to ensure that all activities are closely integrated, which results in efficient investment management. DekaBank also integrates the expertise of the *Sparkassen-Finanzgruppe* into its decision-making via several advisory boards and sales committees. In mid 2008, the German capital investment companies within the DekaBank Group implemented the amended Investment Act by appointing external Supervisory Board members with extensive experience of the markets. This step has further strengthened the investor perspective of the Supervisory Boards.

The close cooperation of the Board of Management and Administrative Board is based on trust. The Administrative Board of DekaBank has 30 members in accordance with the Bank's statutes. These include representatives from the *Sparkassen-Finanzgruppe*, employee representatives and representatives from the *Bundesvereinigung der kommunalen Spitzenverbände* (German Federal Organisation of Central Municipal Organisations), the latter in an advisory capacity. The work of the Administrative Board is processed in part by the full Board and in part by various expert committees. To this end, the Administrative Board has formed the General Committee and the Audit Committee from its members. The German Federal Minister of Finance has overall government responsibility.

Subsidiaries and locations

The business of DekaBank is managed from its head office in Frankfurt/Main. Most of the Group's capital investment and associate companies in Germany are also based here. In addition, WestInvest Gesellschaft für Investmentfonds mbH is based in Düsseldorf. Important banks in international financial centres include DekaBank Deutsche Girozentrale Luxembourg S.A. in Luxembourg and Deka(Swiss) Privatbank AG in Zurich. Business activities previously carried out in Ireland (capital investment company Deka International Ireland Ltd.) were relocated to Luxembourg in the year under review and business has now been pooled at Deka International S.A.

In addition to the established international locations in Luxembourg and Zurich, two companies were added in Tokyo in financial year 2008: Deka Immobilien k.k. which, in its capacity as a consulting firm, supports Deka Immobilien GmbH in Frankfurt in buying and selling property in the Asian market, and Deka Real Estate Lending k.k. which was established as a wholly-owned subsidiary of DekaBank and whose business operations once launched will focus on property finance in the Asian market. The DekaBank Group has representative offices in Vienna, Madrid, Milan and Paris. In financial year 2008, new locations included Amsterdam, Brussels, London and New York. Furthermore, DekaBank Advisory Ltd. was established in London to act as an arranger and consultant for public sector finance.

Together with the public sector insurance companies, DekaBank offers consultancy and services relating to company pension schemes via its associated company, S PensionsManagement GmbH in Cologne (shareholding: 50%). S Broker AG & Co. KG in Wiesbaden (DekaBank shareholding: 30.6%) is an online broker. Acquired in the reporting year, DKC Deka Kommunal Consult GmbH (the former Westdeutsche Kommunal Consult GmbH) in Düsseldorf provides advice to local authorities and public sector companies in Germany. ETFlab Investment GmbH, a subsidiary based in Munich, is responsible for the development, issue, marketing and management of the index funds (ETFs) launched in the reporting year.

Organisational structure, business divisions and product and service range

DekaBank's activities are pooled in three business divisions and a central sales unit. In addition, seven Corporate Centres are responsible for cross-divisional services. The units are closely integrated, which ensures the most immediate proximity to customers possible as well as efficient business processes and the prompt development of new solutions across the various asset classes.

Asset Management Capital Markets business division (AMK)

Asset Management Capital Markets (AMK) provides all-round solutions for private and institutional customers in capital market-based asset management. This facilitates the implementation of precisely-tailored investment strategies that meet all market expectations and encompass the major asset classes. In total, more than 5 million custody clients in Germany, Luxembourg and Switzerland use the fund-based products and services. Alongside the funds and structured investment products of the DekaBank Group, the range of products offered also comprises products from the Bank's renowned international cooperation partners.

For private investors, AMK offers a wide range of investment funds. Currently, 618 mutual funds (including funds of funds) facilitate investment in the major asset classes, including equity, bond, money market and mixed funds as well as funds of funds, capital protected funds and any combination of these, sometimes in conjunction with guaranteed, discount and bonus structures. The spectrum covers basic products such as DekaFonds and RenditDeka as well as products that meet specific requirements, such as Deka-OptiCash for securities account optimisation. As at year-end 2008, the DekaBank Group's mutual securities funds ranked in second place in the German market in terms of fund assets according to BVI.

With our fund-based asset management products, we offer continuous market analysis and consultancy for private investors. Comprehensive asset allocation across all asset classes means that investors can implement their own strategies, depending on their individual risk/reward profile. Alongside funds of funds, structured investment strategies encompass fund-linked asset management with the Sparkassen-DynamikDepot, Schweiz PrivatPortfolio, Swiss Vermögensmanagement and Swiss Fund Selection products.

While retail sales of mutual funds are processed by the savings banks, DekaBank also maintains direct sales activities in institutional sales. AMK manages 366 special funds as well as 109 advisory, management and asset management mandates. The range of services also includes the Master KAG activities (123 mandates), which institutional customers can use to pool their assets under management with one investment company.

Private retirement pensions are also managed by AMK. The range of relevant products encompasses the fund-based Deka-BonusRente (Riester) and Deka-BasisRente (Rürup).

As at 1 January 2009, fund book-keeping and administration for Germany, previously based within the AMK business division, was combined in Dealis Fund Operations GmbH. Established together with Allianz Global Investors in the reporting year, this joint venture is the largest provider in the German market with assets under management in excess of €275bn. In addition to synergies and cost advantages, the joint venture offers DekaBank accelerated migration of functions to a new fund administration platform.

Asset Management Property business division (AMI)

The DekaBank Group's property expertise is pooled in the Asset Management Property (AMI) business division. It offers property investment products with different risk/reward profiles for private and institutional investors. In addition, customised property finance is offered to professional property investors, which is often passed on to institutional investors as an investment. Product quality is decisively promoted by direct access to the different property assets and investors, currently ensured in 24 countries and at the same time being expanded with high synergetic effects across both sub-divisions.

In investment fund business, the focus is on the purchase, value-oriented development and sale of commercial property suitable for third party use in liquid markets. Within the business division, the subsidiary Deka Immobilien GmbH is responsible for the acquisition, sale and management of property as well as rental management, and product development. The two capital investment companies within AMI, WestInvest Gesellschaft für Investmentfonds mbH and Deka Immobilien Investment GmbH, focus on active fund management. The product range includes five open-ended mutual property funds, eight special property funds, two individual property funds and two real estate equity funds of funds. The individual property funds are not subject to the German Investment Act. They are managed in the legal form of a German joint stock company and are therefore very flexible in terms of their investment policy and investment format. Another open-ended mutual property fund, WestInvest ImmoValue, is available for the proprietary investment of the savings banks.

With combined fund assets (according to BVI) of €18.3bn as at the 2008 year-end, distributed across 400 properties in Germany and abroad, we are the market leader in Germany and one of the leading property asset managers in Europe. With a view to focusing on active asset management, the management of the 220 German properties (commercial and technical property management) was outsourced to Hochtief Property Management and Strabag in the year under review.

In parallel, Real Estate Lending benefits from the existing expertise on commercial property and is broadening direct access to key market players, also in the interest of the funds, by focusing on major international property investors. Finance was provided in the same property categories and in the same countries where fund activities are based. Lending was exclusively restricted to loans that are suitable for the capital markets and a major proportion of which can be passed on to institutional investors in the form of investment products.

The synchronised interaction of investment fund business and finance enhances earnings power and efficiency while significantly enhancing market access for the business division.

Corporates & Markets business division (C&M)

The lending, trading and sales activities of the Capital Markets and Treasury business (asset/liability management, liquidity management and funding) are grouped together in the Corporates & Markets (C&M) business division. C&M acts as an investor, structurer and manager of risk products and provides access to primary and secondary markets. In addition, the business division offers innovative capital market and derivatives solutions, creating the basis for targeted expansion of DekaBank's Asset Management offering. Moreover, C&M supplies the *Sparkassen-Finanzgruppe* with liquidity and funds lending via the money and capital markets.

The Credits sub-division generates credit assets via syndicated business and international direct customer business. Within the core asset classes, a distinction is made between special and project financing (Structured & Leveraged Finance), financing for transport, export and trade (Transport & Trade Finance) and financing of infrastructure (Public Infrastructure). The Credits sub-division is complemented by Public Sector Finance, which mainly comprises financing for German savings banks and local and regional authorities. We offer local authority customers of the savings banks comprehensive advisory services, including asset management services, via DKC Deka Kommunal Consult GmbH.

The Liquid Credits sub-division focuses on the management of structured and tradeable capital market credit products. Liquid Credits is also responsible for the active portfolio management of the credit risk associated with C&M within the Group-wide credit risk strategy.

The Markets sub-division combines the strategic units for trading and sales activities, commission business and Treasury. C&M Sales was expanded in 2008 with a focus on Savings Banks Sales (custody account A management and refinancing), Institutional Sales (capital market-based supply for existing Deka Investment customers), Investor Sales (ideas and product supply to Deka Investment) and ETF Sales (privileged provider of the proprietary ETFlab product range and external ETF provider). Services encompass the asset classes of fixed income/bonds, money market (repo), credit and equities (cash/derivatives).

The C&M business division extended its product range for institutional investors inside and outside the *Sparkassen-Finanzgruppe* with the launch of passively-managed exchange traded index funds (ETFs) at the end of March 2008. While the ETFlab subsidiary is responsible for developing, setting up, selling and managing the products, market making, advisory and trading are pooled in the Linear Equity Risks and ETF Sales units at DekaBank in Frankfurt. The units work closely with Institutional Sales.

Trading activities centre on short term products (money market and securities finance), debt trading (bond, credit spread and interest rate derivatives trading) and share trading, in particular the expansion of derivatives business. The trading unit is rounded off by commission business, which comprises market price risk-free commission business relating to shares and bonds (including derivatives) on behalf and account of internal and external customers.

The Public Finance sub-division in Luxembourg was integrated into the C&M business division. This sub-division is developing diversified portfolios in the asset classes of Public Finance and Social Infrastructure (securitised and non-securitised loan receivables) as well as savings banks finance and linked with this, mortgage bond business based in Luxembourg (lettres de gage).

Savings Banks Sales and Corporate Centres

All business divisions work closely with Savings Banks Sales, for which a particular Management Board member is responsible within DekaBank. In addition to the centralised marketing and sales management, sales are divided into three main regions of Germany (North/East, Mid and South). The Sales unit forms an important interface between DekaBank and its alliance partners and also between production and marketing. Moreover, the unit is responsible for various central duties, such as product and brand management and sales control.

The business divisions and Sales unit are supported by a total of seven Corporate Centres with clearly defined core competences, business objectives and management targets and indicators. They function at cross-divisional level and ensure smooth business operations (Fig. 1).

In the year under review, close cooperation between the Corporate Centres and the Group's other units has proved successful, especially in view of the worsening of the financial market crisis. For example, advisers in the savings banks received prompt and comprehensive information via various communication channels, which they were then able to use effectively in meetings with customers.

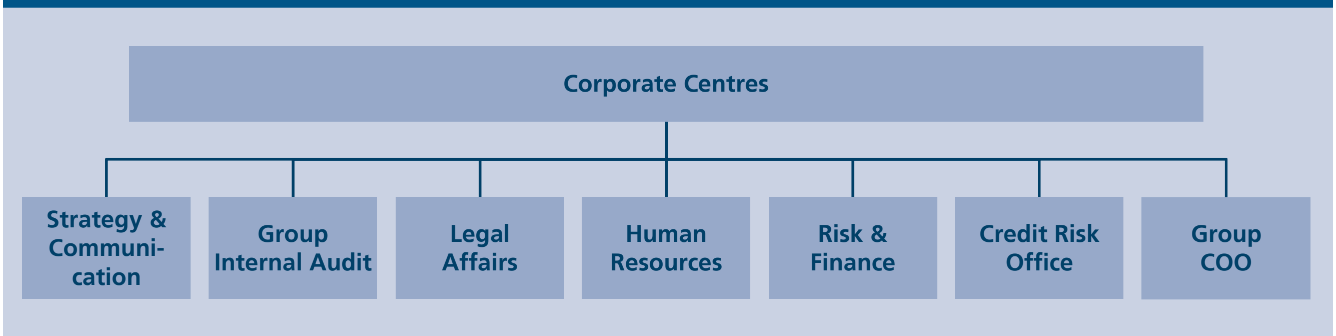
Sustainability and social responsibility

DekaBank has responsibilities beyond its core business. In order to ensure that our business model is sustainable in the long term, we meet the challenges associated with global developments and our commercial decisions take into account environmental and social aspects.

Our comprehensive sustainability strategy is built on four central elements:

Sustainable banking and environmental management: DekaBank has set itself the task of providing services while protecting the environment and natural resources to the greatest possible extent. The Group has established environmental management procedures with a view to protecting natural resources. The environmental company audit in accordance with the valid standard (ISO 140001) for financial services providers essentially comprises five core areas: traffic, water, waste, energy and paper. This audit is a prerequisite for certification, as is an annual environmental assessment.

Fig. 1 Corporate Centres



Sustainable HR management: In view of demographic changes, we attract highly qualified staff and ensure their loyalty to the Bank in the long term.

Sustainable banking products: DekaBank develops sustainable investment products, for example two sustainable funds of funds launched in January 2009. The Bank is also committed to advancing the development of environmental and social standards in financing, including to minimise the risk of damage to its reputation and default risks. Since the start of 2009, DekaBank has taken into account the Equator Principles as part of its project finance business. These principles encompass socially and environmentally responsible standards and are based on the relevant guidelines of the International Finance Corporation (IFC), a World Bank subsidiary. Against this backdrop, the existing negative list was extended to include any project finance that does not meet the requirements of the Equator Principles.

Social responsibility: As a corporate citizen, we are committed to social interests and create social capital through our comprehensive commitment to culture, sport, science and art. Our commitment is also aimed at benefiting our partners within the *Sparkassen-Finanzgruppe*.

Originally launched in cooperation with DekaBank and the German Museum of Architecture (DAM), the City of Frankfurt bestowed the International Highrise Award for the third time in November 2008. The award went to the Hearst Tower in New York and its architect, Lord Norman Foster. The proposals submitted were judged on the basis of efficiency criteria and urban integration, as well as sustainability aspects. The award was accompanied by the new series of Deka HighRise Lectures, as part of which architects who have designed high-rise buildings in Germany and abroad report on major international projects.

Our social commitment focuses on promoting contemporary art and science. We work closely with renowned arts and cultural institutions. Particularly notable is the Bank's collection of 21st century art which we again exhibited in 2008 during the days of corporate art collections in Hesse (Kunst privat!) and also showed for the first time at the Corporate Collections event in Luxembourg. The growing number of external visitors of our art collection highlights the interest shown by our alliance partners as well as interested experts. The external valuation of our art collection completed at the end of 2008 once again confirmed a significant increase in the value of works of art acquired by DekaBank.

Examples of DekaBank's social commitment in financial year 2008 include support for Deutsche Krebshilfe e.V. (German cancer charity) as the main sponsor of the Golf Charity Cup, which comprised 160 local tournaments across Germany, as well as for the Don Bosco Mission, which provides aid for refugees and war orphans in Africa. In addition, we implemented a large number of local measures suggested by employees as part of our *DekaBank – Engagiert vor Ort 2008* (DekaBank – making a local commitment in 2008) initiative.

Value-oriented strategy and management

In terms of structure and content, the section on value-oriented strategy and management corresponds to the equivalent section published in the Group management report. The value-oriented strategy and management is geared towards the Group and Group management on the basis of the business divisions and as a result, encompasses all the business divisions and legal units. The Bank has therefore dispensed with preparing a separate section for the individual company.

Strategic focus of the DekaBank Group

DekaBank is the central asset manager for the *Sparkassen-Finanzgruppe*. It provides an extensive portfolio of solutions comprising Asset Management products and services for the savings banks and their customers, and makes liquidity and cross-divisional advisory services available to the *Sparkassen-Finanzgruppe*, using its extensive access to the capital markets. In all its services, DekaBank's claim is to be the partner of choice, **First Choice Deka**, for customers and sales partners. The Bank's business model closely integrates investment fund and capital market business, enabling DekaBank to offer asset management solutions tailored to individual requirement profiles from under one roof.

For the actual strategic implementation of the First Choice Deka claim to excellence, it is vitally important to pool the competences of the business divisions, Sales and the Corporate Centres in order to be able to offer integrated asset management from under one roof that is among the best in the market in terms of intelligent products and variety of asset classes. Our **One Deka** programme combines all the measures we use to further develop common potential along the value-creation chain and leverage earnings and cost synergies across the business divisions. Value creation stretches from acquiring attractive assets and investment options through structuring and enhancing these and placing them in the form of innovative products.

As **one** bank, we intend to provide investors with product solutions that enable them to implement individual investment strategies in all market scenarios and gear their portfolio to their own return expectations and risk affinity. This aim challenges us to identify capital market trends early and launch suitable innovative solutions in the market across all business divisions and asset classes within short development times.

With the **mission** developed in financial year 2008, we are anchoring our claim to be the integrated bank of choice in all units of the company. The mission sets the standard for employees in all Group units to continually improve their performance while ensuring customer focus and an all-round approach.

Strategy in the business divisions

Strategy in the AMK business division

The strategy in the AMK business division is geared to enhancing the contribution to added value for the *Sparkassen-Finanzgruppe* on an ongoing basis. It puts the needs of the savings banks and their advisers at the centre and covers all essential customer requirements using internal competences.

A key element of the Asset Management strategy is the continued development of the product portfolio. Based on the distinct structuring of core and specialist products, AMK intends to continually enhance product quality and fund performance, along with structuring the product range in line with customer requirements. This also involves the accelerated launch of innovative investment products, which, in the current market environment, is implemented with a focus on safe wealth accumulation. AMK will also be expanding its range of products for private and company retirement provision. With the help of these measures, the DekaBank Group aims to achieve a leading position in the market for mutual securities funds and consolidate its positioning among the top companies in fund-based asset management.

Furthermore, AMK is focusing on the expansion of Asset Management for institutional customers, in particular savings banks. Here, AMK continuously optimises its range of products and services. Institutional Sales now manages sales of the institutional products of all business divisions on a centralised basis. In cooperation with product specialists, Institutional Sales supports the savings banks in strategic issues, fund allocation, custody account and loan portfolio analysis as well as risk management.

Strategy in the AMI business division

The strategy in the AMI business division is based on the combination of Asset Management and Real Estate Lending. The available resources are used to buy, sell and manage property as well as for active property loan portfolio management.

On the strength of direct access to attractive property assets and investors in Germany and abroad, AMI ensures consistent product quality and reliable sales and income contributions. A particular focus of the business division is the expansion of its international presence. Since the fourth quarter of 2008, the new Deka Immobilien k.k. in Tokyo has been responsible for buying and selling property in Asia. Deka Real Estate Lending k.k. was established as early as the second quarter of 2008 and has the relevant responsibility for property finance.

Property-based asset management

With regard to mutual property funds, AMI operates a strict stability-driven investment strategy. Investments focus primarily on core and core+ property with long-term rental income. At the same time, importance is attributed to balanced regional diversification.

With the exception of the ImmoValue fund of WestInvest, open-ended mutual property funds are consistently geared to private investors of the savings banks. Funds received from non-Group funds of funds and institutional investors are channelled into different types of investment. Sales of open-ended mutual property funds are managed on the basis of sales quotas, whose volume is determined by investment opportunities and the target liquidity ratio of the funds.

Furthermore, AMI has made all the necessary arrangements to promote property even more than in the past as a steady and tax-optimised asset class for institutional customers. This includes, for example, the development of property investments with alternative profiles such as the single sector funds in the WestInvest TargetSelect fund family.

Real Estate Lending

The strategic focus in Real Estate Lending within AMI is financing specific property types in countries in which the investment companies would also invest. The basic prerequisite for such financing is that the ability to access the capital markets is guaranteed in each case.

Strategy in the C&M business division

The C&M business division, which acts as a service provider and product innovator for Asset Management, plays a key role in the implementation of our integrated "One Deka" business model. In this respect, the savings banks and *Landesbanken* also benefit from DekaBank's strong liquidity and refinancing profile. In lending and capital market business, C&M is increasingly focusing on asset classes which could translate into attractive products for AMK and AMI. This is associated with the consistently implemented development process from traditional finance provider to credit investor and risk manager.

Following pleasing qualitative and quantitative growth in the Credits sub-division in 2008, C&M is only selectively taking on new commitments in the current difficult market environment. Alongside refinancing for the savings bank sector, the long-term focus is on financing international infrastructure investments, asset-backed financing, project financing and lending to companies with excellent credit standing. The aim is to integrate these with Asset Management. In particular, a proportion of suitable credit assets will be incorporated in special funds.

DekaBank's refinancing will be enhanced in future to include public sector mortgage bond issues (lettres de gage) on the basis of the Luxembourg Mortgage Bond Act. The set-up of the corresponding public finance activities has started. The future mortgage bond bank in Luxembourg will also make additional funding instruments and investment vehicles available to the *Sparkassen-Finanzgruppe*.

The portfolio of the Liquid Credits sub-division is being reduced significantly through active management and scheduled maturing of transactions.

In the Markets sub-division, C&M will continue to expand its offering in various product segments to precisely match the requirements of Asset Management and the *Sparkassen-Finanzgruppe*. This ensures an integral contribution to innovative solutions for private investors and institutional customers.

With regard to ETF index funds, the sub-division will focus on broadening its range of products, including by issuing bond index funds, in order to enhance its market position considerably. Processes and the structure will continually be adapted to the growing business.

Traditional equity business is being extended with the support of trading algorithms. Using these algorithms enables C&M to trade and coordinate higher volumes efficiently. With regard to expanding the derivatives offering via the derivatives platform launched in autumn 2007, the Markets sub-division will adopt a dual approach. On the one hand, the product range of equity derivatives will be expanded to meet the growing demand from Asset Management – especially in terms of guaranteed products – as well as from the savings banks and institutional customers. On the other hand, Markets will strengthen business based on bonds and interest rate and credit derivatives to offer institutional customers convincing fixed-income solutions from under one roof. This also represents an element of the planned expansion of the institutional customer platform with a focus on savings banks. Finally, Markets will further step up securities finance business with a focus on repo/lending and other activities relating to short term products, making optimum use of DekaBank's comfortable liquidity situation.

Strategy in Savings Banks Sales

Savings Banks Sales plays an important part in the Group's extensive market presence. It is the intermediary function between Asset Management and the customer advisers in the savings banks. Based on an in-depth understanding of end customer requirements, the Savings Banks Sales unit supports customer advisers in raising customer awareness of products, some of which are highly complex and require explanation, as well as the underlying trends.

Alongside providing prompt and transparent information about the financial market crisis to customer advisers and fund managers, another key aspect in financial year 2008 was DekaBank's participation in the savings banks' sales initiative "*1 Voraus 2008*" (One Step Ahead 2008). This included extensive training, some of which online, for customer advisers on tax-optimised investment products. More than three quarters of the savings banks took part in the initiative. This adviser training was flanked by a comprehensive marketing campaign about the final withholding tax. Although the inflow of funds was lower than expected as a result of the financial market crisis, the campaign contributed to raising the profile of the savings banks and DekaBank with investors.

Risk and profit management at the DekaBank Group

By consistently developing its business model, DekaBank intends to pursue sustainable and value-oriented growth, thereby achieving an appropriate risk/reward ratio in the long term as well as attractive return on equity. We use non-financial and financial performance indicators to measure our progress in this respect. Comprehensive reporting on the Group management indicates at an early stage whether strategic and operational measures are successful or if changes are required, and whether the risk/reward ratio is within the target range.

Non-financial performance indicators

The non-financial performance indicators relate to the various dimensions of our operations and are an indication of the success of our products in the market and the efficiency of our business processes.

Central control variables in Asset Management (AMK and AMI business divisions) and Savings Banks Sales are

- net sales as the performance indicator of sales success. This results essentially from the total of direct sales of mutual and special funds of the DekaBank Group, fund-based asset management, the funds of our partners and the Master KAG, advisory/management and asset management mandates. Sales generated through own investments are not taken into account.

- assets under management (AuM). Key elements include the income-related volume of mutual and special fund products in the AMK and AMI business divisions, direct investments in cooperation partner funds, the cooperation partner, third party fund and liquidity portions of fund-based asset management and the advisory/management and asset management mandates. For comparative purposes as part of the BVI statistics, we continue to use the fund assets according to BVI.

- fund performance and fund rating to measure product quality;

- the average development period for new products and the share of new products in the sales success to measure innovation and innovation-related efficiency;

- the ratio of intra-alliance business (share of our products in the funds sales of the savings banks and *Landesbanken*) to measure our acceptance by the *Sparkassen-Finanzgruppe* and

- the payments to the alliance partners to measure our added value contribution in respect of our partners within the *Sparkassen-Finanzgruppe*.

In the AMI business division, the transaction volume is also monitored on the basis of property purchases and sales, as well as the rental income across all properties. Additional key indicators measure our success in Real Estate Lending, for example the new business result and the share of the credit volumes converted into investment products via syndication and other instruments.

In the C&M business division, we measure success using standardised key performance indicators that are linked to the relevant target figures. All key indicators that facilitate the measurement of the quality of our risk management are relevant. This involves, in particular, compliance with and utilisation of risk limits, the structure of the credit and market risk portfolio and the achievement of DekaBank's target rating.

For Corporate Centres, control systems have been developed which ensure that exacting service standards towards internal customers are maintained.

Financial performance indicators

The financial performance indicators are influenced by the non-financial performance indicators as a result of various cause and effect mechanisms. All financial targets are established taking account of the risk-bearing capacity.

DekaBank's enterprise value is set to rise as a result of a sustained increase in the economic result. Together with economic risk, this key management variable forms the basis of Group-wide risk and profit management. The background to this is that given the mixed model approach, net income under IFRS is impacted by the different principles used for the valuation of the various assets and liabilities. As a result, not all income components that are required to assess the profit situation are taken into account. In addition to income before tax under IFRS, the economic result includes the relevant valuation result for financial instruments recognised directly in equity with no impact on profit or loss.

Other key indicators used are return on equity and the cost/income ratio. The total capital ratio in accordance with the Solvency Regulation (SolvV) and the core capital ratio are of primary importance for assessing the adequacy of the total amount of capital and reserves of the DekaBank Group. The Bank's total risk position is calculated on the basis of risk-bearing capacity. The DekaBank's Group risk and risk cover potential are determined as part of monthly analysis of the risk-bearing capacity.

Business development and profit performance

Economic environment

The financial market crisis dominated 2008 and worsened unexpectedly and dramatically over the course of the year. The real economy was unable to withstand the resulting pressure and many countries slid into a deep recession. Conditions for players in the securities markets were extremely difficult.

Financial market crisis and measures

The international financial market crisis worsened on an unprecedented scale in the year under review. Hopes that the worst of the consequences of the subprime crisis would be over at the end of 2007/beginning of 2008 were dashed as it became increasingly evident that the difficulties would affect the market throughout the rest of the year. As a result of the dislocations in the subprime segment of the US property sector, the markets recorded a sharp decline in the value of assets. Initially, this mainly affected securitised property loans below the investment grade, but the decline then rapidly spread to fixed-interest securities with a higher credit rating before affecting the equity markets in the form of serious price losses.

In the wake of these developments, banks and other financial services companies came under pressure across the board, including companies with no direct exposure to the US property market. With many financial institutions applying valuation allowances to their loan portfolios, a series of negative news reports followed in the financial sector. The imminent insolvency of Bear Stearns in March 2008 seemed to represent a temporary peak in the banking crisis. Bankruptcy, which would certainly have sent the market into disarray, could only be prevented by the significant joint efforts of J.P. Morgan and US central bank, the Fed.

The wave of depreciation amounting to billions at financial institutions continued unabated and eventually resulted in the US government being forced to develop an extensive rescue package for the country's financial industry. The crisis not only jeopardised the future of banks and broker firms: at the same time, government aid was required to save mortgage finance providers Fannie Mae and Freddie Mac from total collapse. Although the measures prevented direct payment default, a technical default was nevertheless triggered with the breach of agreed contractual terms and conditions. As a result, all credit default swap transactions (CDS) in the names of these two companies subsequently needed to be settled. Meanwhile, the anxiously anticipated knock-on effect on the counterparties concerned did not materialise, proving the strength of the settlement system in the CDS market. AIG, formerly the world's biggest insurance company, also required substantial support in the form of government funds. However, in this case technical default was averted so that AIG, an extremely important counterparty for credit market transactions, was spared from CDS settlement.

The news of the Lehman Brothers insolvency on 15 September 2008 sent the biggest shock waves through the markets. Since the TARP (Troubled Asset Relief Program) rescue programme was not yet in existence at this time, the US government was not in a position to prevent this insolvency.

Uncertainty about the extent to which individual banks were affected by the crisis resulted in a fundamental loss of confidence among banks and the refusal to grant unsecured interbank credit. Bond markets also largely ground to a halt. This tension in turn exacerbated the refinancing difficulties experienced by many banks and brought several financial institutions to the brink of collapse. When Lehman Brothers filed for bankruptcy protection in accordance with Chapter 11, highlighting serious systemic risks, lending between banks stopped almost entirely.

Monetary and financial policy responded promptly and categorically to hostility towards the overall economic stability and viability of the financial sector. Unlike the situation in the 1930s for example, comprehensive programmes to support the banking sector form the basis facilitating the financial sector's continued role as credit supplier to the economy in the ongoing phase of tidying up at the banks.

Resolved by the US Congress in October 2008, TARP enables an authority set up by the US Department of the Treasury to buy up ailing assets and supply equity up to a total volume of US$700bn. Shortly after the programme was launched, the governments of the EU member states also implemented comprehensive rescue measures for financial institutions, passing programmes which in most cases amounted to three-digit billion figures. In addition, short-selling was temporarily banned in a bid to stabilise the prices of shares of financial institutions.

In Germany, the federal government set up a Special Fund for Financial Market Stabilisation (SoFFin) worth €480bn to overcome the liquidity crisis and enhance the equity base of financial institutions based in the country. The special fund may grant guarantees for new bond issues and other liabilities of financial companies up to a total of €400bn. In addition, the special fund was provided with an amount of up to €70bn (plus a reserve of €10bn), earmarked for strengthening the core capital of financial institutions through a capital contribution and taking over risk positions. The government has made the granting of support measures relating to recapitalisation and risk assumption subject to certain restrictions. Several financial institutions have drawn on the Special Fund for Financial Market Stabilisation to date.

In order to counter the uncertainty among private households, the German government issued an additional government guarantee of up to €568bn in October 2008 for all savings deposits, term deposits and credit balances on current accounts. This contributed to preventing a withdrawal of funds from German banks on a massive scale. Nonetheless, the government guarantee for deposits resulted in abrupt, substantial outflows from investment funds in October 2008. This was caused by many investors erroneously categorising these as unsafe investments because they were not covered by the government guarantee when in actual fact they represent secured separate trust assets.

The *Sparkassen-Finanzgruppe*, and consequently DekaBank, were also affected by the outflow from funds – however, to a lesser extent than the market as a whole. On the deposits side, the savings banks recorded a pleasing inflow of funds in the midst of the crisis. The unrivalled stability of the world's largest financial network induced a large number of investors and savers to transfer their funds from private financial institutions to the savings banks.

Overall economic trends and monetary policy

The substantial worsening of the financial market crisis also became the decisive event of last year for the real economy. Following the dynamic start to the year, global growth increasingly lost momentum over the course of 2008. While the focus was initially on the slowdown of growth caused by the sharp rise in commodity prices, the second half of the year saw the full effect of the financial market crisis. As at the year-end, most industrialised nations found themselves in a recession and some of the economies of the emerging markets had cooled considerably. The particularly aggravating aspect of this crisis is the fact that all national economies have been affected at the same time and all market players – companies, consumers and investors – are well aware of the seriousness of the financial market crisis and recession. Given the wait-and-see attitude of consumers and investors, the crisis in the real economy has become dangerously self-perpetuating.

On average, the inflation-adjusted rate of growth in GDP for 2008 slowed down to 1.2% (previous year: 2.9%) in the European Union (EU 27). The German economy, which was still strong at the beginning of the year, was gradually affected more and more by the downward trend during the course of 2008. The counting out had already started as a result of the global inflation episode in the summer of 2008, which had a dampening effect on consumption and exports, but then the financial market crisis proved to be the decisive negative impetus that sent the German economy into recession. Heavily dependent on exports and domestic investment activity, the German industry was especially hard hit. Showcase sectors, in particular, such as the automotive industry, mechanical engineering and the electrical industry suffered particular losses. The chemical industry has also been affected by weak exports and, as a manufacturer of intermediate products, also by lower demand from other sectors of the economy.

Accordingly, hope is focused more than ever on the contribution to stability made by sectors that are not, or only slightly, susceptible to economic developments, such as the food and construction industries and retail. The latter has also benefited from stable private consumption in the current recession. Sales-related problems experienced by numerous industrial sectors were reflected by the downturn in economic output in the second half of the year. Growth in GDP for the year as a whole amounted to 1.3% (previous year: 2.5%).

Despite the sudden decrease in the autumn, exports for the full year rose by 3.1% in 2008 (previous year: 7.5%). Consumption by private households remained low throughout the year, first because of the rise in food and energy prices, and then as a result of the loss in the value of assets in the wake of the financial market crisis coupled with rising fears of job losses. Even the marked deceleration in the rate of price increases in the fourth quarter of 2008, triggered mainly by the spectacular decrease in oil prices, provided no particular impetus for domestic demand.

The employment market continued to develop positively in 2008. Past experience has nevertheless shown that it generally responds to changes in the economy with some delay. On average, the number of unemployed amounted to 3.3 million in 2008, which is significantly lower than in the previous year (3.8 million). The number of people employed therefore exceeded the previous year's level by 1.5%. In line with the higher employment rate, disposable income recorded a notable rise of 2.5%. The savings rate increased from 10.8% to 11.4% of disposable income.

In order to cope with the financial market crisis and to support the economy, the central banks have made substantial volumes of liquidity available and cut key lending rates.

The Fed introduced several new facilities to provide the banking sector with liquidity, making it easier to access central bank funds. The European Central Bank (ECB) expanded its long-term refinancing transactions, in particular. Ahead of the ECB, the Fed started to support the banking system and real economy with lower interest rates. In several steps, it reduced the key lending rate by a total of over 4.0 percentage points to 0.0% to 0.25% in 2008. Due to the imminent risk of inflation, the ECB decided as early as July to increase the euro key lending rate by 0.25 percentage points to 4.25%. On 8 October 2008, key lending rates were then lowered by 50 basis points in each case in a concerted campaign involving six central banks, including the Fed and the ECB. The move was aimed at supporting the banking sector and shoring up the economy. With inflationary pressure easing, the ECB was able to make further cuts in the key lending rate of a total of 125 basis points on 6 November and 4 December to 2.50%. In January 2009, a further cut to 2.00% brought the interest rate down to its lowest level for more than five years.

In addition, many countries have passed economic packages or are planning to implement such measures. The volume of these programmes ranges from 0.5% in relation to GDP (Germany) to 14% (China). Consequently, government budgets will face considerable unscheduled charges in the coming years. However, we believe that these will be absorbed. The debt level of the G7 countries (excluding Japan) is currently around 60% in relation to GDP. Despite rising in the past few years, indebtedness in many countries remains far below historical highs. The rescue packages to support the financial system may temporarily result in significant expense risks for government budgets. Nevertheless, the nature of such programmes means that the final burden on the public sector will not be evident for a few years, in fact not until such time as the assets acquired under these programmes are sold again.

While not welcome, these setbacks in the effort to ensure sustainable government finance are necessary because there is no alternative. Based on past experience, the risk of self-perpetuating economic weakness is simply too great and the price to be paid in this case in terms of low growth rates, high unemployment and low tax income is too high for governments not to attempt a rescue.

Trends in capital markets

Early in the year, the stock markets were still in a euphoric state, despite depreciation results of an already worrying level at international banks and broker firms. The DAX was just below the 8,000 mark at the start of the year and returning to the historical high of 8,105 points of the summer of 2007 only seemed a question of time. However, the first shock for the stock markets came as early as mid January when the high trading losses of Société Générale were reported in the news. This was followed by more bad news from the banking sector. The temporary relief following the rescue of Bear Stearns, which was accompanied by a considerably recovery in the stock markets, lasted for a short while only. Finally, the shock of the Lehman insolvency almost entirely destroyed any remaining investor confidence in the banking system. As a result, the stock markets fell to lows not seen for several years.

At the end of the year, the DAX recorded 4,810 points and was down 40.4% at the close of trading. The losses on US stocks were slightly lower, while shares from the emerging markets lost even more of their value. The overall decrease was as surprising as the extreme intermittent volatility. On 13 October 2008, the DAX recorded its highest ever daily gain with a rise of 11.4%. However, October as a whole proved particularly devastating and on 6 October, the DAX saw more than 7% wiped off its value, the eight-highest daily loss in its history.

Developments in the capital markets were roughly a mirror image of share performance. Here, the levels seen in the last weeks of the year were comparable to those of the Great Depression of the 1930s. Credit indices such as the iTraxx Europe and CDX in the USA have only existed for a few years, but the risk premiums currently demanded for companies have already reached historical levels.

As a result of the drastic cuts in the key lending rate and in expectation of further interest rate steps, the interest rate-based markets have also witnessed various records. In the USA, yields on US Treasuries fell to historically low levels. Quotations for ten-year government bonds were close to 3% and yields on two-year paper were down to significantly below 1% for the first time. In Germany, interest rates also reached the lowest levels seen to date. For instance, ten-year federal bonds fell to below 3%, the lowest ever. Nevertheless, the direction of interest rates at the very long end of the market proved particularly dramatic. For example, the level of volatility in swap rates over the last few weeks of the year ended was unprecedented.

The yield gap between ten-year federal bonds and the short-term interest on three-month money widened in the course of the year. This slightly steeper trend in the yield curve was mainly caused by aggressive central bank policy, in other words low interest levels at the short end of the market. Although the risk of inflation was perceptible up to the middle of the year, capital market yields themselves did not produce the steepness of the curve. In summary, investors in the money and bond markets were in the best position, while more risky paper recorded significant losses.

Trends in currency and money markets

Up to autumn 2008, the effects of the ECB's monetary support measures were limited to three month EURIBOR, the applicable interest rate for unsecured interbank loans. The difference between the EUREPO secured money market interest rate and the EURIBOR rose to 184 basis points at its maximum (10 October 2008), but returned to 109 basis points by the end of the year. Despite this, interbank trade had far from normalised by the end of 2008, given that liquidity was primarily made available by central banks. These distortions in the money market coupled with high refinancing costs in the capital market resulted in high interest on deposits for commercial banks, in some cases over 5%.

In the first half of 2008, the euro rose continually against the US dollar, continuing the dynamic trend of the previous year. At US$1.603 for €1, the currency reached a new record high on 15 July 2008. At this point, the US central bank had already more than halved the key lending rates and announced further easing while the ECB was pursuing its policy of higher key lending rates aimed at countering inflation. When the ECB signalled a change of direction in August, the euro fell sharply to as low as US$1.23 per euro at the end of October. The euro was additionally weakened by the financial market crisis, which hit the eurozone with all its might in mid September and triggered the economic crisis. Volatility remained high until the end of the year. The euro temporarily returned to a value of US$1.47. This was thanks in part to the surprising extent of the interest rate cut announced by the Fed on 16 December 2008 and the transition to quantitative easing of monetary policy.

Trends in property markets

Compared with the economic slowdown in the early 1990s and at the start of this decade, the current crisis is affecting the rental market at a relatively favourable time. Firstly, the volume of newbuilds in Europe has remained largely moderate in recent years. Secondly, the current liquidity squeeze is likely to reduce developer activity and the number of properties being put on the market. Thirdly, rising employment figures had a stabilising effect on the demand for floor space in the eurozone up to summer 2008 and in Germany, this effect even continued into the autumn of 2008. However, this does not apply to the USA, where a reduction in jobs started at the beginning of 2008. Locations whose sector structure depends heavily on banks and financial services providers have been affected particularly severely by the financial market crisis.

In Germany, the pleasing situation in the employment market boosted the office property market in the first half of 2008, with demand dwindling subsequently. Industrial companies and company-oriented service providers were the principal customers. In Düsseldorf, the proportion of space taken up by the public sector was exceptionally high, while in Berlin and Hamburg providers of healthcare and social services made a significant contribution to the result. In Frankfurt, the credit crunch was reflected in demand behaviour but far less so than in other financial centres, for example London. Top rents continued to increase up to mid-year, although in the third and fourth quarter this was the exception.

The US property markets were at the centre of developments. Performance in the commercial sector was subject to far less dramatic changes compared with the residential property segment. The US office property markets recorded progressively rising vacancy rates. Given the rise in new construction, this affected locations outside city centres in particular, where the rate increased to 14.9%. Despite the overall decrease in demand, vacancy rates in inner city locations rose only moderately to 8.9%. While rent levels outside city centres remained fairly strong thanks to generally lower fluctuation there, owners of properties in inner city locations saw a sharp decline in rent for the second quarter in a row of around 9% on an accumulated basis.

The main consequences of the current crisis are felt in the investment markets. Up to the summer of 2008, demand from highly leveraged investors fell in particular. In the meantime, equity investors are also showing restraint. In addition, the slump in transaction volumes suggests that supply and demand are not matched at present. This often happens when suppliers fail to adjust their price expectations at the same pace as potential buyers. Falling prices in other asset classes, cut-backs of credit lines, the rise in liquidity and risk premiums, poor growth prospects for rents and the rising probability of loss of rent have substantially reduced the willingness of buyers and investors to pay.

Investor attitudes and sector development

According to our estimates, the financial assets held by private households in Germany were down by approximately 1% in 2008, representing the first decrease for six years. Although at around €130bn, in line with our forecast, the formation of financial assets was significantly higher than in the previous year, price losses in the equity and bond markets exceeded the rise. In terms of inflows, time deposits and savings bonds were the big winners in the crisis. This segment has been posting record inflows since the start of the crisis. Although investment funds were still popular in the first half, this growth melted away in the last few months of the year, particularly in October 2008. Nevertheless, funds are better positioned than direct investments in stocks and bonds. With regard to shares, portfolios are being reduced for the eighth year running. Following the poor performance in 2007, bonds are expected to record a further decrease.

Fewer investors than the sector expected used 2008 to optimise their portfolios in advance of the introduction of the final withholding tax on 1 January 2009. Up to September, sales of corresponding tax-optimised money market and bond funds had been driven by this factor. In October, investors returned fund units on a large scale. This was motivated by growing fears in the face of the escalating financial market crisis, which were fuelled by unclear government statements regarding government guarantees for deposits and especially the bankruptcy-proof special assets of investment funds. Money market funds, in particular, suffered as a result of the general loss of confidence. The sales-supporting effect of the final withholding tax factor was initially cancelled out by this. Demand for portfolio-optimising products was not boosted until the very last days of the year in view of the imminent introduction of the final withholding tax.

The number of shareholders and fund unit holders in Germany declined once again in 2008. The *Deutsches Aktieninstitut* (German Equities Institute, DAI) recorded an annual average of only 9.3 million shareholders and fund investors, which represents a decrease of around 1.0 million compared with 2007. This means that more than a quarter of German private investors have turned their backs on investments in equities since 2001. Both categories recorded similar losses as investors lost confidence in the stock markets. In 2008, the number of direct shareholders was down to 3.5 million after 4.0 million in the previous year. The retreat from fund investments was similar. In 2007, the number of fund unit holders totalled 7.9 million whereas the figure was down to an average of 7.1 million in 2008.

The fourth and highest subsidy level for Riester pension products was attained in 2008 and provided renewed impetus in terms of the general volume of retirement provisioning. Since the beginning of 2008, all "Riester savers" have received a basic additional contribution of €154 per year. There is also a children's allowance of €185 per annum for every child entitled to child benefit. The consequences of the financial market crisis did not, however, stop short of the market for retirement provision products, which was affected towards the close of 2008. Following a steady increase in the number of new Riester pension plans taken out in recent years, this trend collapsed in October 2008 in the wake of the financial crisis.

Business development and profit performance in the DekaBank Group

Overall assessment by the Board of Management

The fact that the DekaBank Group closed a year of market dislocations of historic proportions with a positive economic result can only be assessed as a success. It reflects the stability of our integrated business model, which combines asset management with capital market business. The charges arising from the negative valuation result from capital market credit products and higher risk provisions were partially compensated by the income contribution from the investment of free liquid funds.

With the considerable worsening of the financial market crisis, especially in the second half of the year, DekaBank could not, however, achieve its original income targets for financial year 2008. At €71.5m, the economic result fell significantly short of the previous year's figure of around €371m, which was net of the non-recurring factor of the proceeds from the sale of the Trianon complex of buildings. Decisive factors primarily included the high valuation discounts on the Liquid Credits portfolio, which resulted from the extreme widening of credit spreads. Moreover, existing risk provisions in the C&M business division needed to be increased.

New business in Asset Management developed positively in the first three quarters of the year. By the end of September 2008, net sales of AMK and AMI totalled €9.4bn. This represents an increase on the previous year's figure of €8.2bn, despite the financial market crisis. Nevertheless, the announcement by the German government of guarantees for bank deposits of private investors triggered a return of shares in volumes never seen before. Although DekaBank was less affected by this than many of its competitors, it eroded a major proportion of sales growth. Consequently, Asset Management generated a net amount of only €1.9bn in 2008 as a whole (previous year: €12.4bn).

Despite performance remaining below expectations, the DekaBank Group expanded its market share of mutual securities funds, thanks in part to the strong sales performance of the savings banks. Gross sales of AMK and AMI mutual funds amounted to around €52bn and were therefore almost at the previous year's level (around €55bn). This pleasing performance also confirms that DekaBank's products, which focus on stability and capital preservation, meet the requirements of private investors and institutional customers, particularly in the current market environment, and that demand for these products is correspondingly high.

The ratio of intra-alliance business, or the share of our products in fund sales of sales partners, remained at a stable and pleasing level of approximately 87% as in the previous year. In terms of payments to the alliance partners, which represent our added value contribution in respect of the savings banks and *Landesbanken*, we almost matched the previous year's record value of €1.13bn with €1.11bn. Both figures reflect that DekaBank continues to be rooted firmly in the *Sparkassen-Finanzgruppe*.

With regard to AMK and AMI assets under management, we recorded a sharp, yet largely price-related, decrease from €165.2bn to €142.5bn in the course of the year. Fund assets of the mutual securities funds according to BVI totalled approximately €103bn, enabling the DekaBank Group to maintain its positioning in second place in the German market. In terms of fund-linked asset management, we reinforced our leadership. In the segment of open-ended mutual property funds, we also remain the market leader by a comfortable margin.

Financial strength and guaranteed risk-bearing capacity at all times are major competitive factors that have gained in importance as a result of the financial market crisis. DekaBank maintained its strong ratings from the leading international agencies in financial year 2008. Moody's confirmed its Aa2 rating for long-term unsecured debt and Standard & Poor's endorsed its A rating, with both agencies stating a stable outlook.

Profit performance of DekaBank

Despite the ongoing turmoil in the capital markets, DekaBank achieved slightly positive net income in financial year under review. Net interest and net commission income, the trading result and other operating income totalled €2,124m. Net interest income and net income from equity investments increased by €974m to €1,526m (previous year: €552m). Alongside a sharp recovery in net interest income from fixed-interest securities, net interest income was positively affected by money transactions as well as securities lending and repurchase transactions. Furthermore, net income from equity investments was more than twice as high as in the previous year as a result of higher profit distributions and profit transfers. Net commission income increased and at €285m, was up on the previous year's figure of €213m. With a positive trading result of €20m (previous year: €-45m), operating income was €1,156m higher than the previous year at €2,124m. Other operating income amounted to €294m (previous year: €249m). Intra-Group services again accounted for the main portion. Operating expenses rose year-on-year by 26.4% to €690m. The increase is primarily due to higher personnel and operating expenses as a result of the rise in the number of employees and greater investment in infrastructure as part of the strategic realignment of DekaBank. Operating expenses including depreciation rose 31.8% to €393m. Net income before risk provisions consequently stood at €1,434m, up €1,012m on the previous year. The net valuation result in lending, securities and equity investment activities amounted in aggregate to €-943m (previous year: €337m). The negative valuation result reflects the significant increase in provisions for loan losses as well as higher write-downs in securities business because of the decline in share prices. After deducting the interest paid on typical silent capital contributions, income tax and the allocation to the fund for general banking risks to strengthen the core capital, DekaBank achieved operating income after tax of €45.4m, which is almost on a par with the previous year (Fig. 2).

Business development in the AMK business division

AMK dealt well with the phase of extreme market jitters and dwindling investor confidence in financial year 2008 in general and specifically in October. Net funds outflows from mutual securities funds were below the sector average. Accordingly, market share rose slightly. Bond funds and capital protected funds performed particularly well. In contrast, we recorded outflows from money market funds and in fund-based asset management. In close cooperation with the savings banks, DekaBank confirmed its position as a reliable and trustworthy partner for private and institutional investors.

Net sales performance and assets under management

Despite the slump in October, the month of crisis, AMK's net sales performance amounted to €0.5bn (previous year: €12.4bn). Net funds inflow into mutual securities funds according to BVI, which is used for market comparisons, was in the negative range in the reporting period. The DekaBank Group accounted for around 17% of the funds outflow across the sector totalling €27.7bn. In terms of market positioning, the extent to which the mutual securities funds of DekaBank were affected by funds outflows was therefore below average.

Fig. 2 Profit performance of DekaBank

€m	2008	2007	Change	
Net interest income	1,526	552	974	176%
Net commission income	285	213	72	34%
Trading result	20	-45	65	144%
General administrative expenses	616	503	113	22%
Risk provision/valuation	-943	337	-1,280	(< -300%)
Income tax	-16	1	-17	(< -300%)
Net income after tax	45	50	-5	-10%

Uncertainty among investors in the wake of the financial market crisis and the sharp decline in prices on the stock markets resulted primarily in a negative sales performance for equity funds. However, compared with the previous year (€-4.1bn) outflows were limited to €-1.2bn.

In the first nine months of the year, our money market funds still recorded clearly positive figures. Demand for the Deka-OptiCash fund was particularly high here. In October 2008, driven by the government guarantee for deposits, funds outflows from money market and bond funds totalled almost €5bn. Subsequently, invested sums were increasingly moved into bank deposits. However, as early as November, the trend started to stabilise noticeably again. Thanks in part to the strong sales performance of the savings banks and *Landesbanken*, bond funds achieved substantial funds inflows in the last two months of the year.

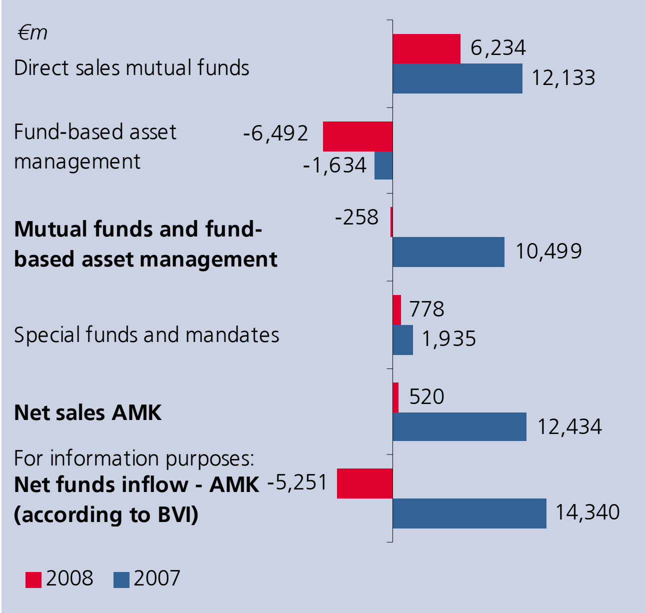
In view of the final withholding tax, new investor money was placed, in particular, in the fixed-term funds of the Deka-OptiRent series over the course of the year. These funds are currently invested mainly in discount and index certificates, secured by options, and are performing well despite the capital market turmoil. On an aggregated basis, the various guaranteed funds also recorded a positive net sales performance. Nevertheless, the marketing campaign in relation to the final withholding tax did not produce the expected sales growth overall.

With regard to asset classes, we succeeded above all in expanding multi asset fund (MAF) business. In particular, the safety-oriented variant based on a total return approach attracted many investors. As at year-end 2008, we managed as many as 59 MAF mandates, which represents an increase of 28 on the figure recorded 12 months earlier.

In terms of fund-based asset management, a drive to step up sales in the difficult market conditions did not generate the intended growth. Funds outflows rose compared with the previous year (€-1.6bn) to €-6.5bn, an almost four-fold increase. This development reflects the high level of uncertainty among investors. The funds outflows were mainly attributable to the sales performance of the Sparkassen-DynamikDepot. However, funds of funds also fell short of expectations.

Net sales performance of the special securities funds and mandates overall failed to match the previous year's level. Funds inflows relating to the advisory/management mandates (€1.7bn) and Master KAG mandates (€3.2bn) were countered by funds outflows from special funds totalling €-4.1bn (Fig. 3).

Fig. 3 AMK sales performance



Assets under management of mutual funds and in fund-based asset management decreased from €108.0bn to €88.8bn over the course of the year. Of this, €82.3bn (previous year: €94.4bn) was attributable to owned mutual funds. In fund-based asset management the volume of assets under management was down to €27.1bn, representing a decrease of 34.9% on the previous year's figure of €41.6bn. In summary, DekaBank maintained its positioning as No. 2 in the market for mutual securities funds and was also even able to expand its market share in terms of fund assets according to BVI from 19.8% at the end of 2007 to 20.9%.

Assets under management in special funds and relating to advisory/management mandates (excluding Master KAG mandates) diminished by €4.8bn to €34.7bn compared with the 2007 year-end. The decline in assets was attributable in approximately equal shares to sales and performance (Fig. 4).

Expanded offering

In financial year 2008, DekaBank launched a series of new fund products and expanded its offering, especially in the segments of capital protected and mixed funds. This meets the heightened requirements from customers for safe investments and the high demand for investment instruments for market phases characterised by weak performance and high volatility.

Key product launches related to guaranteed funds. These offer attractive yield opportunities while guaranteeing preservation of the paid-in capital at the end of the investment period of several years. Accordingly, they target investors who attach particular importance to the safety aspect.

The successful Deka-WorldGarant series was continued with two additional product variants. Investors participate in the performance of a share index basket which covers the world's key economic regions. Deka-WorldTopGarant 1 and 2, also newly launched in the market, guarantee capital preservation at the end of every investment period as well as the highs achieved by the underlying share basket during the six-year investment period. To this end, the average values are established for each quarter. DekaStruktur: Garant is a new guaranteed fund concept which combines guaranteed preservation of capital with active asset management on the basis of broad regional diversification of investments in equity funds.

In addition to the guaranteed products, investors also showed interest in funds based on discount and bonus structures. The Deka-BonusStrategie 3y fund, set up in June 2008, invests in bonus structures on a European share index. The investors are still in profit even if the underlying index loses up to 40% of its value as at the time the fund was set up. The Deka-Discount Strategie 5y and Deka-DeepDiscount 2y (III) funds, launched in January and October respectively, generate additional income through a discount strategy and offer investors a comfortable buffer without their having to forego the chance of rising prices.

In terms of equity funds, we enhanced our offering by including the Deka-Convergence Small MidCap fund, which exploits the opportunities offered by economic convergence of Central and Eastern Europe with the European industrialised nations and invests mainly in second-tier stock. The new Deka-Recovery fund enables investors to make targeted investments in the shares of sound companies whose share prices have come under significant pressure and which therefore offer corresponding recovery potential.

Fig. 4 Assets under Management AMK

€m	31.12.2008	31.12.2007	Change	
Equity funds	15,586	29,723	-14,137	-47.6%
Capital protected funds	5,814	4,374	1,440	32.9%
Bond funds	30,899	28,592	2,307	8.1%
Money market funds	24,982	27,118	-2,136	-7.9%
Other mutual funds	5,039	4,616	423	9.2%
Owned mutual funds	**82,320**	**94,423**	**-12,103**	**-12.8%**
Partner funds, third party funds, liquidity in fund-based asset management	5,193	11,170	-5,977	-53.5%
Partner funds from direct sales	1,296	2,361	-1,065	-45.1%
Mutual funds and fund-based asset management	**88,809**	**107,954**	**-19,145**	**-17.7%**
Special securities funds	25,980	31,730	-5,750	-18.1%
Advisory/management mandates	8,726	7,792	934	12.0%
Special funds and mandates	**34,706**	**39,522**	**-4,816**	**-12.2%**
Assets under management AMK	**123,515**	**147,476**	**-23,961**	**-16.2%**
For information purposes:				
Fund assets - mutual funds AMK (according to BVI)	**102,591**	**128,485**	**-25,894**	**-20.2%**
Fund assets - special funds AMK (according to BVI)	**41,804**	**46,708**	**-4,904**	**-10.5%**

We expanded our portfolio of retirement pension products with the launch in January 2008 of Deka-BasisRente, the first fund-based offering of "Rürup" pensions, which links the benefits of a state-subsidised investment with the yield opportunities of an optimised asset structure. Investors can choose between a growth-oriented and a safety-oriented investment concept.

Fund performance and rating

In an extremely difficult market environment, the DekaBank funds as a whole did not continue the previous year's performance. Only 23% of the equity funds (previous year: 74%) outperformed their relevant benchmark. With regard to bond funds, the proportion of outperformers reduced to 30% (previous year: 40%). At the 2008 year-end, 28% of our funds received a top rating from Morningstar, compared with a proportion of more than 30% one year earlier.

Important accolades confirmed the quality of our asset management and fund products once again in 2008. A major achievement was winning the *"Aufsteiger des Jahres"* (Rising Star of the Year) accolade at the €uro Fund Awards 2008. This resulted from the fact that 11 Deka investment funds received the prestigious fund awards, a considerable improvement on the previous year. At the Morningstar Awards ceremony in Vienna, DekaBank was named winner in the "Energy Stocks" sector and also came second in the "Small Fixed Income Fund House" ranking in Austria. At the Lipper Fund Awards Germany 2008, DekaBank was ranked first in three different investment categories.

In January 2009, business magazine *Capital* named Deka Investment top investment company for the first time, giving it the highest score of five stars in all five categories judged. Only 9 of the 100 investment companies assessed achieved this top rating. DekaBank convinced the judges with the quality of its equity, bond and mixed funds over different periods of time as well as with a very good result in the management category.

Our company retirement pension products also received awards. The Deka-ZeitDepot for long-term savings based on depositing salary components in long-term notice accounts and lifetime working hours accounts was awarded the quality mark of "recommended without qualification" for the second time by the *Fuchsbriefe* sector service. Praise was given, in particular, for the precisely-tailored product range and the service provided in terms of management and advice provided to individual employees. Customers include major conglomerates as well as SMEs and very small businesses.

Business development in the AMI business division

The AMI business division performed well in the difficult market environment during the reporting year, achieving an increase in the economic result on the adjusted previous year's figure net of the proceeds from the Trianon sale. The restriction of sales of open-ended mutual property funds to fixed limit quotas coupled with the consistent focus on private investors has paid off. In terms of the year as a whole, net sales performance and assets under management rose and even in the severely affected month of October 2008, the reduction was below the sector average. Over the course of the full year, mutual property funds recorded comfortable liquidity ratios and used developments in the property markets to make targeted purchases. With very positive development in the market for properties to let, vacancy rates were reduced across the board, almost without exception. In Real Estate Lending, new business was limited deliberately. The resultant effects on income were more than compensated by higher margins.

Net sales performance and assets under management

Following the relatively balanced net sales performance in the previous year, the AMI business division was back on course for controlled growth in the year under review. Net sales performance amounted to €1.4bn, of which approximately €1.3bn was attributable to mutual property funds. The real estate private equity fund of funds launched at the end of April 2008 also made a perceptible contribution to net sales with €117m.

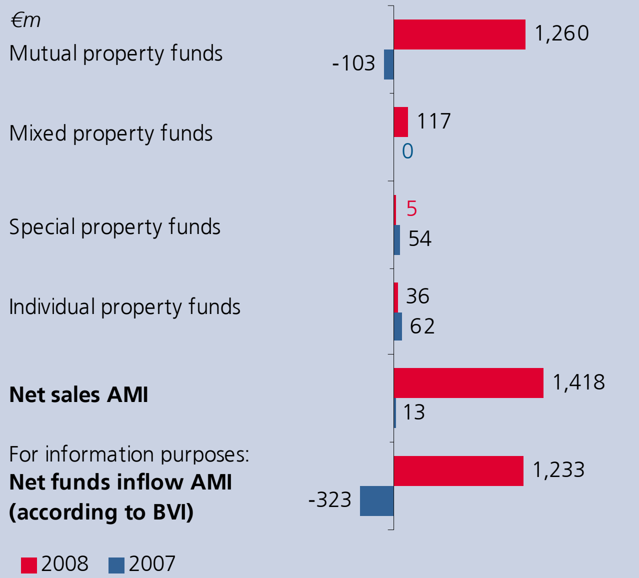
The high level of demand for open-ended mutual property funds with an international focus, in particular, would have facilitated a far higher sales performance. Nevertheless, as was already the case in the previous year, the focus was on ensuring the profitability of the funds and liquidity management. The quotas for the Deka-ImmobilienEuropa, Deka-ImmobilienGlobal and WestInvest InterSelect funds were already completely exhausted in the first six months of 2008. Many savings banks also utilised the option of using returned units in the second half of the year towards the replacement quota. The quotas for funds which are geared more towards Germany were only partially used, despite general conditions being better in Germany.

The consistent exclusion of institutional capital from our open-ended mutual property funds has proved particularly successful in times of crisis. While some German capital investment companies were forced to suspend acceptance of returned units in October 2008 in order to secure their own liquidity supply, the DekaBank Group products remained open without interruption. Here, outflows remained significantly below the sector average. The absolute liquidity ratios for the DekaBank Group's open-ended mutual property funds were reduced according to schedule compared with the 2007 year-end. This means that they were within, or slightly above, the target range.

Since the Group's competitors suffered higher outflows of funds in 2008 as a whole, AMI was able to further strengthen its leading market position. In addition to net sales, the good performance also made a contribution towards this achievement.

With regard to special property funds and individual property funds for institutional investors, we achieved balanced net sales. In the third quarter of 2008, WestInvest TargetSelect Logistics was the first fund from the TargetSelect series to be launched. The hotel fund and retail fund were scheduled for imminent launch at the end of 2008 (Fig. 5).

Fig. 5 AMI sales performance



Assets under management in mutual property funds totalled €17.2bn at the year-end (previous year: €16.0bn). On the basis of fund assets according to BVI, the market share increased from 19.2% to 20.4%. Overall, assets under management rose by €1.2bn to €18.9bn (Fig. 6).

In the wake of the financial market crisis, property prices everywhere fell sharply over the course of the year. The AMI funds exploited the greater financial leeway offered with a high level of quota utilisation, acquiring some properties with attractive yield potential. However, the key concern was to guarantee that investors would be able to return their units at all times.

In the UK for example, the property market provided an increasing number of attractive opportunities throughout the year. The Deka-ImmobilienGlobal fund invested in an office property in London while Deka-ImmobilienEuropa acquired two mixed-use office and shop buildings in London as well as a retail property in Cambridge. After a long period of time, the Japanese market also became more attractive again from early 2008 onwards. Here, the Deka-ImmobilienGlobal fund invested in the German Centre for Industry and Trade in Yokohama as well as in two properties located in Osaka. In addition, the fund invested in Santiago de Chile for the first time and expanded its portfolio in Mexico.

WestInvest InterSelect took on measured commitments in Central and Eastern Europe, including properties in Warsaw, Kaunas (Lithuania) and Vienna. We acquired two retail properties in Turku via WestInvest ImmoValue, entering the Finnish market. The first acquisition of the WestInvest TargetSelect Logistics fund was a development project in Schwerte. All transactions were handled on a centralised basis by Deka Immobilien GmbH.

Fig. 6 Assets under Management AMI

€m	31.12.2008	31.12.2007	Change	
Mutual property funds	17,151	16,047	1,104	6.9%
Mixed property funds	117	0	117	n.a.
Special property funds	1,477	1,518	-41	-2.7%
Individual property funds	196	160	36	22.5%
Assets under management AMI	**18,941**	**17,725**	**1,216**	**6.9%**
For information purposes:				
Fund assets AMI (according to BVI)	**18,284**	**17,046**	**1,238**	**7.3%**

Expanded offering

In financial year 2008, AMI expanded its range of funds by adding two attractive new products. In this context, AMI made use of the wider scope offered by the new Investment Act.

A real estate private equity fund of funds launched in April 2008 especially for private banking customers of the savings banks invests in the leading open-ended and closed-ended real estate private equity funds worldwide. From a minimum investment of €50,000, individuals of high net worth can participate in this investment concept which is so far unique in Germany. As a result of the low level of correlation with other asset classes such as equities or bonds, the fund, which is established under Luxembourg law, is ideal for optimising the wealth structure of private banking customers.

Launched in July 2008, the new WestInvest TargetSelect product family is aimed at institutional investors, intending to make tailored, individual investments in logistics, hotel and retail property. A special fund is set up for each sector under German law, and its investment policy in the first stage concentrates on European core markets and primarily on core and core+ real estate. The first special fund launched was WestInvest TargetSelect Logistics.

Fund performance and rating

The DekaBank Group's open-ended mutual property funds achieved a volume-weighted yield of 4.4% under difficult market conditions in 2008 (previous year: 5.3%). Vacancy rates calculated on the basis of gross target rent were significantly reduced across all regional markets and for almost all of the funds over the course of the year.

The agency Scope Analysis GmbH gave our open-ended property funds another very good rating in financial year 2008. The funds were in top positions in three out of six categories. WestInvest 1 and Deka-ImmobilienFonds came first and second for funds with a stronger focus on the German property market. We took first and third place for funds with an investment focus on Europe. WestInvest ImmoValue also received the best rating of AAA. This fund is aimed at institutional investors and invests in real estate in Europe and was judged to be the best of all the property funds under review. With regard to the new stability-oriented fund category introduced by rating agency Scope in 2008, the DekaBank Group took all five top places. In addition, WestInvest maintained its top placing as the company with the best fund management in the segment of open-ended property funds. Deka Immobilien Investment came a very pleasing third in this category. This outcome means that WestInvest received the Scope Award for the second time in a row. High praise was given for its liquidity management systems and the quality of investor support provided through the broad network of the *Sparkassen-Finanzgruppe*.

DekaBank's property portfolios were also awarded top marks by the analysts at BulwienGesa. Deka-ImmobilienGlobal ranked first with second place going to Deka-ImmobilienEuropa. All six open-ended property funds were placed in the top 10 and therefore in the upper third of the property portfolios assessed.

Real Estate Lending

In the Real Estate Lending (REL) sub-division, we continued to strengthen our international activities. In October, a new representative office opened in London. Deka Real Estate Lending k.k. was established in Tokyo and was granted a licence for lending business in January 2009. The company, originally set up in the second quarter of 2008, is scheduled to start business operations in the first quarter of 2009. In addition, preparations are underway to expand Milan as a location, where we already conduct AMK and AMI activities.

The new loans granted in the financial year under review totalled €3.5bn (previous year: €2.7bn). REL focused mainly on properties that facilitate third party use and are therefore ideally suited for passing on to institutional investors. Although the markets for syndication virtually dried up in the course of the year, the Group succeeded in placing around €1.1bn as a long-term profitable investment, largely within the *Sparkassen-Finanzgruppe*.

As at the year-end, the gross loan volume in this sub-division amounted to €7.4bn (previous year: €5.2bn). The amount was mainly divided between office and retail property.

Business development in the C&M business division

In financial year 2008, the C&M business division was particularly affected by the financial market crisis. High valuation losses on capital market credit products and transfers to the risk provision had a negative impact on the economic result of the C&M business division. It emerged that some transactions, in particular CSO transactions, were subject to higher default risks. In view of these developments and the associated loss in value, DekaBank has decided to reduce the portfolio of structured credit products.

Business development in the C&M business division

The C&M business division achieved a higher gross loan volume in traditional lending business (Credits), while at the same time recording an improvement in the risk and credit-rating structure in new business. The gross loan volume which is the responsibility of C&M increased by 22.3% to €143.5bn (previous year: €117.3bn). In the Structured & Leveraged Finance segment, DekaBank expanded structured finance and project finance as scheduled. The financing volume in the Transport & Trade Finance segment also increased in the year as a whole. The Public Infrastructure segment, which was set up in the previous year, was also on course for growth.

As at the 2008 year-end, the Liquid Credits portfolio amounted to a net volume of €11.8bn (previous year: €7.5bn). Around two thirds of the portfolio was attributable to standard products, such as bonds, CDS and index transactions. To benefit from market interest rate developments and credit spreads, the portfolio of corporate bonds was expanded with a focus on top rated counterparties. The major proportion of the Liquid Credits portfolio has retained its good rating.

The Markets sub-division expanded its trading activities in many respects. Securities finance was advanced, in particular, during the financial year ended with a focus on repo/lending transactions. In addition, the enhanced range of equity derivatives for innovative product combinations in Asset Management and for institutional customers was increasingly used during the financial year under review via the derivatives platform launched in autumn 2007.

The start of sales of passively-managed exchange traded funds (ETFs) at the end of March 2008 also made a favourable impact. This represented an expansion of the range of products for institutional investors within and outside the *Sparkassen-Finanzgruppe*. The subsidiary, ETFlab, already managed a volume totalling €1.8bn across ten ETFs as at the year-end.

Thanks to the continued strong liquidity supply at DekaBank, refinancing activities in the capital market were again implemented selectively and in most cases in order to meet specific customer demand. The use of the existing Euro Commercial Paper Programme (ECP) was restricted to a minimum as in the previous year. In foreign exchange trading, activities centred mainly on classic spot and forward exchange dealings. Our objective was to provide customers with optimum order execution with regard to quality and price. In proprietary trading, we continued to hold open equity and interest rate positions to a small extent and within prescribed limits.

Financial position and assets and liabilities

Balance sheet changes

The business volume of DekaBank increased in 2008 by €35.2bn, or 26.8%, to €166.6bn (previous year: €131.4bn). Total assets rose by €27.3bn, or 23.8%, from €114.9bn to €142.2bn. The Bank expanded the assets side of the balance sheet through a rise in the volume of bonds and other fixed-interest securities as well as an increase in amounts due from customers. Amounts due from customers were up by €5.0bn to €28.2bn and therefore represented around 20% of total assets. Amounts due from banks were down by €2.5bn to €51.3bn (previous year: €53.8bn). This corresponded to 36.1% of total assets (previous year: 46.9%). The amount due to customers rose slightly to €35.9bn (previous year: €35.7bn). The amount due to banks increased by €9.9bn to €41.5bn (previous year: €31.6bn). Securitised liabilities increased by €3.1bn to €40.2bn. The equity reported in the balance sheet again amounted to €1.4bn on the reporting date, accounting for 1.0% of the balance sheet total (previous year: 1.2%).

Loan volume

At €32bn (previous year: €27.5bn), the focus in the Bank's lending business was on loans to financial institutions. These accounted for 50.5% of the total loan volume amounting to €63.4bn (previous year: €56.3bn). The volume of loans to customers stood at €23.2bn and was €6.9bn higher than the figure at the end of the previous year. At €3.1bn, contingent liabilities were down €1.1bn on the previous year. Irrevocable lending commitments totalled €5.0bn and were therefore €3.3bn lower than in the previous year.

Money transactions

The majority of money transactions were carried out with German and foreign financial institutions. Investments in call money and fixed-term deposit accounts as well as in repo and lending transactions totalled €24.2bn at the 2008 year-end (previous year: €33.2bn).

Securities portfolio

As at 31 December 2008, the item bonds and other fixed-interest securities stood at €39bn, reflecting a rise of €11.5bn over the course of the year. Shares and other non fixed-interest securities increased by €3.5bn to €10.3bn. The volume of the securities portfolio totalled €49.2bn, of which 55.1% was allocated to the trading portfolio, 30.8% to the liquidity reserve and 14.1% to investments.

Change in regulatory capital

DekaBank's capital and reserves in accordance with the German Banking Act (KWG) amounted to around 3.4bn as at 31 December 2008, up €0.1bn on the previous year. The regulatory capital and reserves differ from equity under IFRS and comprise core capital, supplementary capital and Tier III capital. Core capital also includes the silent capital contributions (around €0.6bn). The items to be deducted in accordance with Sections 10 Sub-sections 6 and 6a of the German Banking Act are deducted in equal measure core and supplementary capital; the previous year's figures have been adjusted accordingly.

Capital adequacy is determined in accordance with the Solvency Regulation (SolvV) which came into force in 2007. In addition to default risks and market risk positions, amounts for operational risks are taken into account when calculating capital adequacy.

The offset amount for default and market price risks as well as operational risks rose compared to the previous year. The calculation of the core capital ratio (including market risk positions) includes 50% of the items to be deducted in accordance with Section 10 Sub-sections 6 and 6a of the German Banking Act (KWG). The capital and reserves principle under banking supervisory law was complied with at all times throughout 2008, both at Bank and Group level. DekaBank's liquidity ratio was between 1.3 and 1.7 in the year under review, remaining above the minimum requirement of 1.0 at all times (Fig. 7).

Employees

Changes in the staff complement

In financial year 2008, the DekaBank Group created a number of new jobs. As at the year-end, we employed 3,920 staff, 367 more than at the end of 2007 (3,553). This number included 67 (previous year: 75) trainees. 86.2% of the 3,630 staff employed on average for the year (previous year: 86.6%) were in full-time posts. The average number of positions filled increased by 8.6% to 3,355 (previous year: 3,089). The average age of staff was 38.9 years (previous year: 38.8 years).

The growth in the number of jobs is a direct consequence of the DekaBank Group's realignment and the strategic development of the business divisions. The AMK business division significantly increased institutional sales, in particular, while the establishment of international locations especially impacted on AMI. In the C&M business division, the staff increase was largely attributable to the launch and progressive expansion of ETF index fund business. Additionally, the PPP specialist DKC Deka Kommunal Consult GmbH was included for the first time with 14 employees.

Fig. 7 Breakdown of equity

€m	31.12.2008	31.12.2007	Change
Core capital	2,379	1,884	26.3%
Supplementary capital	1,033	1,432	-27.9%
Tier III capital	0	0	
Capital and reserves	**3,412**	**3,316**	**2.9%**
Default risks	21,862	20,426	7.0%
Market risk positions	6,061	5,736	5.7%
Operational risks	1,052	850	23.8%
%			**Change %points**
Core capital ratio (including market risk positions)	**8.2**	**7.0**	**1.2**
Core capital ratio (excluding market risk positions)	**10.6**	**8.9**	**1.7**
Total capital ratio	**11.8**	**12.3**	**-0.5**

A counter-effect was produced by the transfer of 115 employees, who since 1 January 2009 have been employed by Dealis Fund Operations, DekaBank's joint venture with Allianz Global Investors for investment fund book-keeping and administration. Outsourcing the property management of real estate held by the property funds in Germany to external service providers also resulted in a slight decrease in the number of positions filled. Further restructuring measures in the financial year related to the discontinuation of business activities in Ireland and their relocation to Luxembourg. Employees, who had previously worked in Ireland, were offered equivalent employment elsewhere in the Group. All measures aimed at increasing efficiency and optimising processes were developed in close cooperation with the employee representatives in the DekaBank Group and based on a socially responsible approach.

New mission

Employee management focused on the development of the new mission and its implementation throughout the organisation. The mission makes ongoing performance improvements, customer focus and an all-round approach in all Group units binding criteria for all employees. To this end, a tailored system for measurement based on ratios has been introduced to make the results transparent for all units and employees. At all DekaBank locations and supplemented by a new section on the Intranet, screens display the mission statement and provide an overview of the key ratios which reflect DekaBank's current business trend as well as the targets achieved to date. In addition, success charts show any new awards and the latest ratings for DekaBank. Employees were made aware of the new mission during a series of events.

Transparent remuneration system

The reorganisation of our remuneration system was completed at the start of the reporting year. Success and performance-related remuneration at the DekaBank Group is based on a system of agreed targets and performance appraisals. Following the introduction of the total compensation approach in the previous year, the modernised social security and fringe benefits came into effect at the beginning of 2008. A portion of social security and fringe benefits has been converted into a budget for rewarding individual performance.

Equal opportunities and a family-friendly policy

DekaBank is committed to equal career opportunities for men and women and has further enhanced the general conditions for workers with family responsibilities. One of the objectives of the new equal opportunities plan, which has been in force since the beginning of the year, is to increase the proportion of women in management positions in the long term, including by taking greater account of this group when new employees are appointed. At the end of 2008, 15% of managers were women. An extensive catalogue of measures provides a framework for future developments and is consistently reviewed.

In 2005, DekaBank was already awarded with the basic certificate of the Hertie Foundation as a family-friendly company. In November 2008, a new certificate was issued following a comprehensive renewed audit. The official award ceremony is scheduled for mid-2009.

Occupational health management

DekaBank pursues a life cycle-based Human Resources policy. Demographic change and the increase in lifetime working hours necessitate a stronger focus on maintaining and promoting the physical and mental fitness of all employees. Modern health management makes an important contribution to competitiveness. The Deka Health Centre was opened in May 2008 and around 3,000 employees in Frankfurt have access to the facilities. The centre is run by rehabilitation and prevention specialists, Medical Park, and the Olympic Training Centre in Hesse also has access to the facilities. In addition to fitness and training opportunities, the Health Centre offers the latest treatment options as well as outpatient services, such as massage and physiotherapy. This new service was accompanied by the sponsorship of the *Firmenfitness – Frankfurt macht mit* (Corporate fitness for Frankfurt) campaign and a symposium on occupational health management organised by DekaBank in summer 2008.

Professional training and studying whilst in employment

As an employer offering training, DekaBank once again fulfilled its duties comprehensively in financial year 2008. Alongside investment fund sales staff, DekaBank trains young employees to become property experts and IT specialists in application development, and provides the opportunity of studying for Bachelor of Science degrees (in applied information technology) as well as promoting an office communications qualification. DekaBank also offers Bachelor degrees for which employees can study alongside their job and supports employees studying for a degree in investment (*Investmentfachwirt*) at the Frankfurt School of Finance & Management.

As part of the nationwide *Fit für die Bewerbung* (Perfecting your job application) campaign, we gave careers advice to pupils from secondary schools that do not qualify for university entry. We also participated once again in the Girls' Day event and provided information to many young women about jobs for which training is available and the opportunities offered by DekaBank.

Post balance sheet events

No major developments or events of particular significance occurred after the 2008 balance sheet date.

Forecast report

In terms of structure and content, the section relating to the forecast report corresponds to the equivalent section as published in the Group management report. Group and division planning is geared towards the Group and Group management on the basis of the business divisions and as a result encompasses all the business divisions and legal units. The Bank has therefore dispensed with preparing a separate section for the individual company.

Overall bank strategy

DekaBank will continue to develop its business model in 2009, taking into account the different framework conditions in the wake of the financial market crisis and the fundamental changes in the sector. Providing the best possible support to the *Sparkassen-Finanzgruppe* as the central asset manager will remain a primary objective in a challenging market environment. To achieve this, DekaBank will continue to build on its unique combination of two success factors in future. These comprise making an extensive range of products and services in Asset Management available to the savings banks and their customers as well as providing and guaranteeing access to liquidity at all times for funds, savings banks and the *Landesbanken.* The Bank does this by benefiting from access to capital markets and asset classes, and applying its approach of cross-divisional consultancy.

The focus is the further optimisation of our core business comprising mutual funds, special funds, fund-based asset management and ETFs, using synergies across the business divisions, arising from the infrastructure and sales for example. We are committed to ensuring the stability, safety and ongoing liquidity of our funds. We also invest in new asset classes and product solutions, in order to make these available to the savings banks and their customers, and provide substantial start-up finance for such solutions.

The comprehensive use of existing platforms means benefiting from economies of scale. We intend to expand Asset Management for the savings banks as institutional customers, offering them a favourable liquidity and refinancing base in the long term.

Forward-looking statements

We plan our future business development on the basis of assumptions that seem the most probable from today's standpoint. In spite of this, our plans and statements about future growth are fraught with uncertainties and more so than ever in the current market environment. The actual trends in the international capital, money and property markets, or in DekaBank's business divisions, may diverge markedly from our assumptions. For the sake of providing a balanced presentation of the major opportunities and risks, these are broken down according to business division. In addition, the risk report included in the Group management report contains a summarised presentation of the risk position of the DekaBank Group.

Anticipated external conditions

Expected macro-economic trends

Negative economic news from all global regions mounted in the first few weeks of 2009. According to our estimates, global economic growth is likely to have reached its low point in the six-month winter period of 2008/2009. The fact that the recession is expected to end this year is a result, on the one hand of the determined interest rate cuts by the central banks, and on the other of the comprehensive economic packages implemented worldwide. After global economic growth of 3.1% in 2008, we expect global GDP to stagnate (0.1%) in 2009, but to record growth again in 2010 of almost 3%.

The German economy is in the deepest post-war recession it has faced to date. Sales markets for German products are disappearing at breakneck speed. The weak export situation became very evident at the year-end of 2008 and start of 2009. In view of worsening sales prospects, companies are holding back when it comes to investing in equipment, mainly for fear that additional capacity may not be utilised.

If business expectations and investments diminish, jobs tend to be cut. However, there is justified hope that the rise in unemployment during the current recession will be less marked than in previous phases of decline. The employment market reform should provide support and, in particular, also the fact that companies have recently experienced a shortage of skilled staff. Companies will be making every effort to retain their established teams of core staff for as long as possible, for example by settling hours of overtime worked or implementing short-time working. The extension of the short-time working allowance from 12 to 18 months will underpin such measures. Although the successes in the employment market will not prevent a rise in the rate of unemployment this year, they will ensure that new record unemployment levels are avoided, which in the past were seen in every recession.

Although the rising unemployment levels are affecting consumption, the high pay rate levels agreed are still impacting positively in conjunction with decreasing inflation, which is resulting in a stabilisation of real disposable income and ultimately consumption. Consequently, we anticipate a minor downturn in 2009 und therefore a similar trend to that of the year under review.

All in all, GDP in Germany is likely to shrink significantly in 2009. Since the impetus from international markets required to facilitate a recovery in export business has yet to materialise, we expect growth to remain below average in 2010. However, the outlook is more positive for Germany as an export nation in the longer term. German companies operate in the world markets with a range of high quality and technologically sophisticated products. Together with their employees, they have succeeded in recovering lost price competitiveness and have consolidated their balance sheets, which is reflected by the extraordinarily high self-financing ratio of investments in an international comparison. These advance measures should pay off in the next global recovery, with German companies benefiting above average.

The global perspective also offers a series of counterweights and enough political options to prevent the real economic crisis from taking an even less favourable turn. Companies in most national economies are set up on a sustainable basis and there are no excessive levels of indebtedness or unhealthy cost structures and, with very few exceptions, no structural excess capacity. In view of the further foreseeable development requirement in the new industrialised countries of Asia, Eastern Europe and Latin America, the global economy continues to offer growth potential. The US economy also offers upward potential in terms of a growing population, technological progress and flexible markets. In order for these factors to take hold again, the spiral of negative expectations will need to be broken while decreasing overall economic demand must temporarily be balanced and the banking sector swiftly consolidated.

At the end of January, the new President announced extensive measures in the USA, which should provide considerable support for the country's economy. In Europe, the rescue packages announced to date will certainly prove helpful. Nevertheless, many of the supposedly new measures relate to relief which was planned anyway and will undoubtedly require subsequent improvement. After initial hesitation, the government in Germany is now willing to be inspired by the rescue packages implemented in the USA and put in place effective measures to support the economy. With the help already announced, but even more with the excepted economic rescue packages still to come, it may be possible to mitigate the sharp downward trend in the economy. Accordingly, there is hope that the economy will at least gradually return to a growth course in the second half of the year.

Expected trends in the capital markets

Following the deterioration in the capital markets in the wake of the crisis leading up to the end of 2008, investors are focusing on safety in 2009 as well. The money and bond markets remain popular, while property funds and guaranteed products also meet the high need for security. A stable base will be established in 2009, although volatility in the capital markets is likely to remain relatively high initially, partly due to the continuing ambivalent news situation and nervous investors.

The comprehensive measures taken by central banks and defined by financial policy worldwide will progressively have an effect on the financial markets in the course of the year. The rescue packages for financial institutions have already contributed noticeably to calming the situation. The option of increasing equity and guarantees in relation to new bank issues for refinancing has at least resulted in share prices stabilising somewhat and significantly improved the development of risk premiums for banks in the credit market compared with industrial companies.

Provided that the government's economic packages prove effective, the stock markets should gain renewed confidence and be able to recover some of the losses recorded. Against this backdrop, stock markets will be able to unlock their potential over the course of the year, especially if the equity markets anticipate next year's moderate growth and profit expectations of companies become more positive again.

With regard to fixed-income markets, low yields are expected for most of this year given the continued low key lending rates set by the central banks. We do not anticipate yields to start rising again before there are signs of an economic recovery. By the end of 2009, we expect 10-year federal bonds to have made some progress towards returning to their normal level of around 4% and therefore generate higher yields than at present. Taking into account the economic rescue packages, it is obvious that these will result in higher deficits in public budgets. The major industrialised nations will certainly be in a position to finance this increased indebtedness and it does not in principle put their creditworthiness in question. However, the issue volumes arising from the economic rescue packages are substantial and have an adverse impact on prices in the bond markets. There is a potential risk that this will cause yields on government bonds to rise a little higher and faster.

Overall, 2009 is unlikely to be a good year for bonds. The focus will return to more risk-oriented investments, such as stocks, corporate bonds and investments in emerging markets. Later in the year, it will be possible to include higher risk paper in the portfolio, since more risky investments tend to record above-average performance towards the end of an economic crisis.

Expected trends in property markets

Regardless of structural growth in the service sector, the recession-driven job losses worldwide in 2009 will result in a cyclical downturn in demand, rising vacancy rates and decreasing rent levels in the next two years. Locations whose sector structure is highly dependent on banks and financial services providers will be particularly affected by the financial market crisis. While finance and company-oriented service providers originally drove up demand for space and rental prices, they now account for the greatest downward potential. We expect to see the sharpest fall in rents in financial centres, such as London and New York, where investment banking plays a more significant role than in Luxembourg, for example. In the City of London, the cyclical surplus construction is also adversely affecting the rental market. In view of the initially continued substantial construction levels and the deep recession, we also anticipate a sharp decline in rents in the Spanish locations of Madrid and Barcelona.

Within the Asian markets, a marked correction in rents is expected in the financial centres of Hong Kong and Singapore. As very outward-looking national economies which are highly dependent on the export sector, these locations are also severely affected by the global recession. In Singapore, a significant expansion in the supply of space will exacerbate the situation in the coming years. In Beijing and Shanghai, the trend in demand is also downward while a high level of construction activity is generating more floor space.

In the retail segment, locations which have benefited from a very high level of private consumption in recent years will be especially hard hit. Falling house prices and difficult financing conditions will contribute to high savings rates in many countries, dampening prospects for retail markets. This will be the case in the USA, in particular, and within Europe, mainly in Spain, the UK and the Baltic countries.

The main consequences of the current crisis are being felt in the investment markets. We anticipate an increasing number of emergency disposals in the coming months, with previously strong counterparties also needing to put attractive properties in good locations on the market. This reason contributes to our assumption that further marked price corrections will be implemented in the coming year. In top European locations, which recorded particularly sharp decreases in yields before, significant increases of up to 175 basis points have been observed since autumn 2007. By comparison, the cap rates in the USA have seen a moderate upward movement. In terms of a trend, the rise in yields will be higher for properties of lower quality than for top properties. As a result, differentiation will increase.

Falling prices and decreasing rents will result in a loss of earnings in office property markets in 2009 and 2010. Yet the current crisis does not change the positive medium-term earnings potential of property investments. Although we are currently seeing the most marked price corrections in a historic comparison, these will mark a return to normality in the property sector following the previously overinflated prices which were triggered by a liquidity surge. Dwindling demand, higher risk awareness and lower growth expectations in terms of rent are likely to result in exaggerated initial yields in the next two years. In the medium term, however, yields will also remain at a higher level than in 2007 and do so on a sustained basis. As a result, regular income from property management will be back in focus.

Expected sector development and regulatory conditions

Ultimately, the financial market crisis will not be overcome until such time as it is foreseeable that the financial system can absorb the losses arising from mortgage-backed securities and possibly other loan commitments. In phases of an economic downswing, default risks rise systematically not only in relation to mortgages but all other forms of consumer and corporate loans. In this respect, the knock-on effect from the financial markets on the real economy and vice versa cannot be ignored. In this context, the government support programmes and related liquidity measures taken by the central banks must be aimed at reducing the extent and speed with which the expected deleveraging process in the banking system unfolds, in order to limit its effects on the real economy.

Ensuring the viability of key financial markets will be decisive in preventing a further overall deterioration in terms of the ability and willingness of banks to grant credit and assume risk. To this extent, nobody should expect the public sector rescue packages to be an instant solution to all the problems arising in the financial system. Their task is rather to restore confidence in the stability of the financial system. This gives financial institutions more time to process the risks built up in the past on the basis of a structured approach, which will create the conditions for the financial system to heal itself in the medium term.

The credit markets will remain depressed for some time. In the long term, the securitisation market will lose some of its importance compared with the situation prior to the financial market crisis. In this segment, in particular, the various committees and expert panels will introduce regulations to minimise the risk of any future financial market crisis. This means that even if the markets completely overcome this crisis in the next few years, the architecture of the financial markets will be different. According to current assessments, there will be simpler and more transparent products with a clear structure in terms of the parties assuming risks. Viable business models will no longer be able to rely exclusively on capital market-based financing. Instead, they will additionally require substantial deposit-taking. This will certainly be supplemented by regulations being developed further in cooperation with the central banks, not least to ensure that they remain in a position to fulfil their monetary policy remit. After all, highly volatile and susceptible financial markets make it more difficult to guarantee stable monetary conditions for national economies.

In the current first year of the final withholding tax, old-age provision products for Riester and Rürup pension plans are likely to attract more interest. Capital protection and exemption from final withholding tax are strong arguments, making it attractive to invest above-average levels in savings plans under the new regulations, even if these plans are not subsidised. Such plans offer opportunities for profitable investments.

Expected business development and profit performance

In financial year 2009, the DekaBank Group aims to achieve an increase in net sales and in assets under management, assuming a largely normalised market environment. On the basis of our stable business model, we intend to achieve positive income contributions from Asset Management at levels which will be sustainable in subsequent years.

A key concern of customers is the safety of their cash investments in the wake of the serious market dislocations seen in recent months. In other words, investors want to be able to forecast the yields they will achieve on the basis of securities as well as the level of their private retirement pensions. This customer requirement determines the sales focus and product development of DekaBank's Asset Management. However, the asset structure via funds of funds or fund-linked asset management, for example, will also represent an important investment criterion, which we will address accordingly.

AMK business division

In the AMK business division, DekaBank will focus on products for safe securities income which can be planned, including for private old-age provision. Here, the Bank can build on the high level of trust customers place in the *Sparkassen-Finanzgruppe* even in times of crisis. Accordingly, a comprehensive sales campaign on safe investments is planned, which will be flanked by targeted product developments. In institutional sales, AMK also intends to remain on course for growth.

With regard to old-age provision, DekaBank will make the Deka-ZukunftsPlan available to customers from the beginning of 2009. This additional fund-based Riester pension product provides for individual customer-based investment management. It is an alternative investment to Riester-subsidised products, which enables all investors to make unlimited deposits in future that are exempt from final withholding tax but benefit from capital protection from the start of disbursement and favourable tax rates on disbursements.

In addition to optimising the range of investments, AMK also plans to internationalise sales in order to support organic growth.

Due to the low starting level of assets under management, AMK expects only moderate growth in portfolio-related commission in 2009. Nevertheless, AMK still intends to make a clearly positive contribution at a steady level to the economic result of the DekaBank Group.

While particular opportunities are offered by the early identification and implementation of global growth trends and stronger sales activities, risks may arise especially as a result of ongoing unfavourable capital market developments. These could manifest themselves in a decrease in prices and yields or in cash outflows from individual fund categories in the sector as a whole.

AMI business division

AMI will consistently continue to limit the issue of new units in open-ended mutual property funds, with the aim of achieving cautious liquidity management and ensuring attractive yields for investors. When specifying quotas, we took adequate account of the fact that funds are applying prudence on the buyer side in the current market environment and that the market for property sales is only receptive to a very limited extent. In view of the high level of interest displayed, a fixed term will now also be specified for quotas of German funds and funds with an international focus.

As was the case in the previous year, AMI aims to develop new attractive and innovative Asset Management products in 2009. For example, a fund is to be launched which will enable institutional investors to participate in the yield opportunities offered by property finance.

The REL sub-division continues to focus its activities on loans to customers of strong creditworthiness, which are collateralised with charges. In new business, REL will pursue its prudent and income-oriented approach and exclusively acquire loans that are suitable for the capital markets.

Overall, AMI aims to continue to make a positive contribution to the economic result of the DekaBank Group.

In the AMI business division, opportunities arise, for example, from the market launch of new products for private and institutional investors. There is also the chance of channelling a portion of financial resources parked in money market funds in the short term into long-term high-yield property funds, which provide a better return for our customers, the savings banks and *Landesbanken*, as well as for us. We continue to record considerable uncovered demand in respect of both open-ended mutual property funds and institutional products for obvious reasons. Risks exist in the potential further deterioration of market conditions. In addition, there is a risk of a higher number of loan defaults in the strained market environment.

C&M business division

The C&M business division will continue to focus on its role of supporting Asset Management in financial year 2009 by making available innovative capital market and derivatives solutions. At the same time, it will supply the *Sparkassen-Finanzgruppe* with liquidity. With the implementation of the integrated business model of DekaBank, C&M will continue to play a key role.

In traditional lending business, the division will focus on the active management of existing business. With regard to new commitments, the Credits sub-division will aim to increase usability for Asset Management as well. Thanks to the broad diversification of business, we again expect a positive income contribution in 2009.

The Liquid Credits portfolio will be partially reduced through active management and the scheduled maturity of certain transactions.

In the Markets sub-division, one of C&M's focuses will be to further strengthen its market position in ETF business on the basis of the strategic measures implemented. We expect these favourably priced, transparent and default-proof index funds to benefit from the current market environment. In addition, we anticipate high demand for equity and fixed-income derivatives as backing for safety-oriented products in Asset Management and for institutional business, taking into account regulatory framework conditions. C&M has substantially expanded secured business and repo/lending activities in response to high levels of demand from customers for short-term liquidity.

In the new Public Finance sub-division, the set-up of diversified portfolios will continue in line with relevant market conditions in each case. The associated activities include establishing a mortgage bond bank for issuing public sector mortgage bonds under the Luxembourg Mortgage Bond Act.

C&M plans to make a positive contribution to the DekaBank Group's economic result in financial year 2009 by focusing lending business on the asset classes which can be used by Asset Management, as well as expanding repo/lending business with institutional customers and increasing the volume of ETF-based asset management solutions.

Risks exist in the potential continuation or worsening of the financial market crisis, in particular. In addition, there is a risk of a higher number of loan defaults in the strained market environment.

Risk report

In terms of structure and content, the following risk report corresponds to the risk report published in the Group management report. Risk management and risk control is geared towards the Group and as a result encompasses all the business divisions and legal units. The Bank has therefore dispensed with preparing a separate risk report for the individual company.

Risk-oriented overall bank management

Risk policy and strategy

Every banking transaction is characterised by the fact that risks are incurred in order to generate earnings. The extent to which this takes place depends just as much on the respective business strategy as on the available risk capital and regulatory requirements. DekaBank does not therefore view risks in isolation but as an integral part of overall bank management. The overarching aim is to guarantee an appropriate risk/reward ratio for DekaBank and its shareholders and thereby to generate an attractive return on equity.

DekaBank's Board of Management is geared towards these aims when determining the strategic focus of the Group including the associated risk strategies. These are reviewed and updated at least once a year and discussed with the Administrative Board. In addition, the Administrative Board has established an Audit Committee, which regularly obtains a comprehensive overview of the risk management systems in the DekaBank Group and receives reports of the audit findings from Internal Audit.

DekaBank is the central asset manager for the *Sparkassen-Finanzgruppe*. We offer tailored products, solutions and services for implementing individual investment strategies in a variety of market scenarios. Our fund products cover all key asset classes for private investors and institutional clients. In addition, our range of services encompasses lending, capital market-related trading and sales activities and Treasury business (asset/liability management, liquidity management and funding). In principle, DekaBank does not take any unforeseeable risks, even when related to extraordinary earnings opportunities. DekaBank has set limits for all quantifiable risks and implemented a consistent risk management system.

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

Organisation of risk management and control

Risk management

DekaBank perceives risk management as the active management of the Bank's risk positions (Fig. 8).

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

In accordance with the limits prescribed by the Board of Management, the Asset Liability Management Committee (ALMC) specifies the framework for the management of strategic market price risk positions. The ALMC includes the members of the Board of Management responsible for the Corporate & Markets (C&M) business division and for the Corporate Centres as well as the managers from the Markets unit in the C&M business division and the Corporate Centre Risk & Finance. The Committee also includes a representative from the Macro Research unit of the Asset Management Capital Markets (AMK) business division. The C&M business division then implements the strategic guidelines independently. Responsibility for the Group-wide management of credit risks is held by the C&M business division. The Corporate Centre Credit Risk Office assumes the role of administration office for early risk identification. This office is also responsible for the market-independent second recommendation, the approval of credit rating analyses and ratings, checking specific items of collateral, setting up limits and regularly monitoring the credit ratings of default risks as well as monitoring the transaction management of non-performing and troubled loans. The respective managers in the Group units are responsible for the operational risks in their units. Details of risk management are given under the different risk types.

Risk control

In organisational terms, Risk Control is part of the Corporate

Centre Risk & Finance and is carried out by the Market & Liquidity Risk, Credit Risk, Desk Controlling Corporate & Markets and Group Risk & Reporting units. These units are independent of the business divisions and are tasked in particular with developing a standard and self-contained system that quantifies and monitors all risks associated with the Group's business activities. The risk measurement procedure is continually updated in line with business and regulatory requirements. Risk Control also monitors compliance with the limits approved by the authorised persons. Limit overruns are notified immediately to the Board of Management.

Not all risks can be quantified but they are equally important. DekaBank therefore also carries out qualitative controls, which include unquantifiable risks.

Risk reporting
Each quarter, the Board of Management and Administrative Board receive a risk report in accordance with the MaRisk (Minimum Requirements for Risk Management). The risk report provides a comprehensive overview of the main risk types as well as the risk-bearing capacity. In addition, the Board of Management and the main decision-makers receive report extracts with key information on the current risk situation on a daily or at least monthly basis.

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

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

Fig. 8 Organisational structure of risk management in the DekaBank Group

		Market price risk	Liquidity risk	Credit risk	Operational risks	Business risk	Property risk/ property fund risk	Shareholding risk
Administrative Board (or Audit Committee)	– Overview of current risk situation/risk management system – Discussion of strategic direction with Board of Man-agement	●	●	●	●	●	●	●
Board of Management	– Determines strategic direction – Responsible for Group-wide risk management system – Sets return on equity target and allocation of risk capital to risk types and business divisions – Sets overall limit and approves limits within risk types	●	●	●	●	●	●	●
ALMC[1]	– Specifies framework for management of strategic market price risk position – Proposes overriding limits	●	●					
AMK business division	– Conducts transactions in line with strategic guidelines			●		●		
AMI business division	– Conducts transactions in line with strategic guidelines			●		●	●	
C&M business division	– Conducts transactions in line with strategic guidelines	●	●	●				
	– Decisions within the framework determined by ALMC and specifies limits within trading division	●	●					
	– Manages Group-wide credit risk			●				
Credit Risk Office (Corporate Centre)	– Administration office for early risk identification – Market independent second recommendation – Transfers/approves ratings – Checks certain collateral – Monitors transaction management for troubled loans			●				
Risk Control (Corporate Centre Risk & Finance)	– Development/update of system to quantify, analyse and monitor risks – Reports to Board of Management and Administrative Board Determines/monitors risk-bearing capacity – Monitors approved limits	●	●	●	●	●	●	●
Equity Investments (Corporate Centre Strategy & Communication)	– Manages equity investment portfolio							●
Internal Audit (Corporate Centre)	– Audits and evaluates all activities/processes (especially risk management system)	●	●	●	●	●	●	●
DekaBank Group	– Identifies, measures and manages operational risks on a decentralised basis				●			

1) ALMC = Asset Liability Management Committee (composition: head of Markets, head of Risk & Finance, responsible members of Board of Management and Macro Research (AMK))

Overall risk position of DekaBank

Risk types and definitions

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

Market price risk

Market price risk describes the potential financial loss on positions in the Bank's own portfolio caused by future market parameter fluctuations. DekaBank enters into such positions in the C&M business division in order to manage balance sheet and off-balance sheet risks and ensure the Bank's liquidity at all times. In addition, the Bank intends to benefit from short-term fluctuations in market prices. Overall, this should generate a steady contribution to the Bank's overall profit.

Both the strategic positions in the banking book and the more short-term positions in the trading book entail market price risks. These include interest rate risks and share price risks, as well as credit spread risks and option risks, and, to a very small extent, currency risks.

Credit risk

We understand credit risk as the risk that a borrower, issuer or counterparty does not fulfil his contractually agreed services or fulfil them on time and DekaBank incurs a financial loss as a result.

In principle, with regard to credit risk DekaBank distinguishes between position risk and advance performance risk. The position risk comprises the borrower and issuer risk, which is determined particularly by the creditworthiness of the respective contracting partner as well as replacement risk and open positions. The advance performance risk represents the danger that a business partner does not pay the contractually agreed consideration after advance performance by DekaBank.

Credit risks arise primarily in the C&M business division, in which the lending, Pfandbrief business and sales and trading activities and Treasury business are pooled, as well as to a lesser extent in the AMI and AMK business divisions.

The C&M business division is divided into five sub-divisions comprising Credits, Liquid Credits, Public Finance, Exchange Traded Funds and Markets. The main task of the Credits sub-division relates to syndicated loans, club deals and direct business. In the Liquid Credits sub-division, credit risks arise primarily from investments in structured capital market credit products, bonds and credit derivatives. This sub-division is being reduced over the next few years through the scheduled expiry of transactions and active management. Credit risks arise in the Public Finance sub-division from lending to the public sector. The counterparty and issuer risks originating in the Markets sub-division from trading activities relate in particular to financial institutions, funds and corporates. In the Exchange Traded Funds unit, credit risks arise from the trading and market maker function for our listed index funds. Further credit risks result from German and international property finance in the AMI business division as well as the guarantee fund in the AMK business division.

Operational risk

Operational risk describes possible losses resulting from the use of internal processes and systems that are inappropriate or susceptible to failure as well as human error and external events. Where losses occur due to an error by the Bank, other risks frequently arise whose damage potential also has to be taken into account. Examples of such secondary risks include reputation and legal risks.

Liquidity risk

Liquidity risk is understood as the risk of insolvency as well as the risk resulting from a mismatching of maturities in assets and liabilities. In principle, the Bank distinguishes between insolvency risk and liquidity maturity transformation risk.

We understand insolvency risk as the risk that DekaBank is unable to fulfil its current or future payment obligations on time for a period of one year. This is the case when the Bank's liabilities exceed the available liquid funds at the time in question.

The liquidity transformation risk describes the risk that arises from a change in DekaBank's own refinancing curve in the event of mismatches in the liquidity-related maturity structure. At DekaBank, this risk is monitored using funding ratios. These are primarily used for liquidity and refinancing forecasts.

Business risk

Business risk is particularly important in Asset Management. It comprises potential financial losses resulting from changes in customer behaviour or economic framework conditions as well as due to technology advances. Material for DekaBank are all factors which adversely impact the earnings trend as a result of volume and margin changes and are not attributable to any of the above risks.

Shareholding risk

DekaBank understands shareholding risk as the risk of a potential financial loss from impairment of the portfolio of equity investments where these are not consolidated in the balance sheet and therefore already included under other types of risk.

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

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

Risk measurement concepts

Risk-bearing capacity
DekaBank determines the Group risk across all significant risk types that impact on income and also includes those risks not taken into consideration for regulatory purposes, for example business risk. Group risk is measured as the amount of capital that with a high level of probability will suffice to cover all unexpected losses from the main high risk positions within a year at any time.

DekaBank uses the value-at-risk approach (VaR) in order to quantify individual risks on a uniform basis and aggregate them as an indicator for Group risk.

When calculating the VaR with a holding period of one year, DekaBank adopts a prudent and conservative approach. In the risk-bearing capacity analysis, risk is determined for various confidence levels, particularly 99.9%. In addition, the diversification effects across the individual risk types are disregarded when aggregating the individual risks as these would otherwise reduce the reported Group risk. The conservative approach is in line with DekaBank's risk-aware business policy.

Group risk is matched by the risk cover potential. If this is consistently higher than the Group risk, that is the utilisation level stands at less than 100%, the overall risk-bearing capacity of DekaBank is guaranteed at all times. The risk-bearing capacity analysis is carried out monthly and the results are reported to the Board of Management. The Administrative Board is informed on a quarterly basis.

To assess the risk-bearing capacity on a differentiated basis, DekaBank distinguishes between primary and secondary risk cover potential in line with the legal position of the investor. The primary cover potential is essentially composed of the equity in accordance with IFRS and the net income contribution for the year – that is the forecast profit reduced by a safety margin. The secondary cover potential includes hybrid capital type positions; these include profit participation capital and subordinated liabilities – each with a remaining maturity of at least one year – as well as typical silent capital contributions.

Stress tests
Regular stress tests are also carried out for all key market parameters in order to assess the impact of extreme market developments. The reason for this is that a value-at-risk model shows the potential loss under largely normal market conditions. In addition, stress tests relate to events that cannot be derived directly from statistical data. These tests analyse interest rate risk and credit risk positions. In the reporting year, stress scenarios covering market developments in relation to credit spread risks in particular were also developed and carried out on a regular basis.

Overall risk position in financial year 2008

The risk-bearing capacity of the DekaBank Group was guaranteed at all times during financial year 2008. Nevertheless, at 65.3%, the utilisation ratio for the overall risk-bearing capacity has increased significantly compared to the previous year (42.1%). This was due on the one hand to considerably higher Group risk and on the other to the reduced risk cover potential following the adjustment of the net income contribution and the called-in typical silent capital contributions which are no longer included in the risk cover potential.

In detail, Group risk increased from €2,392m (end 2007) to €3,292m at the end of 2008, which corresponds to a rise of 37.6%. This was countered by an overall risk-bearing capacity of €5,043m (end 2007: €5,683m). The primary cover potential stood at €3,414m and the utilisation rate as at the end of year was 96.4%. At the height of the financial market crisis in October 2008, Group risk exceeded the primary cover potential.

The sharp rise in Group risk is attributable not least to the movement in market price risk, which at €1,027m was up 55.1% on the previous year (€662m). Overall, the traditional market price risk (interest rate, share price and currency risk) was only slightly higher than in the previous year. However, there has been a notable rise in the spread risk resulting from the Liquid Credits portfolio in particular. This was mainly due to the extraordinary widening of credit spreads and their volatility in connection with the massive dislocations in the capital markets.

The increase in the credit risk following the investment of liquidity and this risk therefore on the expansion of our business volume was also significant at 44.1%, At the year-end, this amounted to €1,491m (previous year: €1,035m).

At €436m (previous year: €358m), the higher business risk reflects the current extensive changes in the framework parameters in the economic and product environments which could impact on the development of costs and earnings.

Operational risk, shareholding risk and property and property fund risk recorded relatively moderate changes and played a lesser role (Fig. 9).

Market price risks

Risk management and monitoring

DekaBank's market risk strategy stipulates the parameters for the Bank's trading and all other transactions associated with market price risk. It specifies the policy for the markets in which we operate, regulates responsibilities and the nature and extent of the transactions carried out and also provides regulations for risk management, control and reporting.

The market risk strategy is viewed holistically in conjunction with the liquidity risk strategy. However, the individual risk components are reported and managed separately. The trading strategy forms an integral part of the market and liquidity risk strategy.

In principle, the ALMC responsible for the strategic management of market price risk positions meets twice a month. The committee discusses changes to the limits for the trading portfolio as well as the strategic position and presents these to the full Board of Management for decision-making purposes. Risk monitoring and reporting is carried out by Group Market Risk Control in the Corporate Centre Risk & Finance. This unit is responsible for developing the methodology, quality assurance and monitoring the processes to quantify market price risks. In the event of limit overruns, Market Risk Control informs the Board of Management immediately.

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

To minimise risks, DekaBank primarily uses established products and markets which usually have sufficient market liquidity and depth as a result of their international acceptance. Option positions are only entered into to a controlled extent. No transaction in precious metals or commodities were carried out during the reporting year.

Risk positions are limited at portfolio level using risk ratios derived from the scenario analyses and the VaR process described below. In addition to these risk limits, to effectively limit losses, stop loss limits are defined for trading books in particular. The basis for calculating the utilisation of the stop loss limits is the accumulated net income for the year determined by the Accounts unit in the Corporate Centre Risk & Finance. If the loss exceeds the stop loss limit, the open positions in the corresponding portfolio are to be closed out until the risk position has been brought down to below the limit.

Quantifying market price risks

In line with the extent of the interest rate and equity positions as well as the significance of the financial market crisis for capital market credit products, DekaBank gives particular priority to the monitoring of related market risks. The systems to measure and monitor the risks are continually refined and further developed. We determine the risk ratios on a daily basis with the aid of scenario analysis in accordance with the VaR

Fig. 9 Change in Group risk over the course of the year

method.

Scenario analyses
In our scenario analysis, we distinguish between standard and stress scenarios. The latter are used to assess the impact of extreme market developments.

Standard scenarios are defined according to the different risk factors for changes in interest rates, credit spreads, share prices and exchange rates. They are used to operationally manage linear risks arising from trading and Treasury positions.

The standard scenario to determine general interest rate risk is a hypothetical parallel shift in the current currency and segment-specific yield curves of 100 basis points up and down. In detail, we compare the present values of all individual values per currency calculated using the current and shifted yield curve. The interest rate risk corresponds to the negative change in value caused by a general rise or cut in interest rates.

In addition, we look at the specific interest rate risk (spread risk) arising from capital market products and credit derivatives. The specific risk from these products results from the variability of the product-specific or counterparty-specific spreads. To quantify this portion of the market price risk, the counterparty-specific spread curves are shifted in line with the portfolio-specific degree of diversification. The specific interest rate risk across all individual transactions is derived from the difference using the present values determined on the basis of the current and shifted spread curve.

When calculating the share price risk, DekaBank takes account of the varying degree of diversification in the portfolio. For portfolios with low diversification, a price change of 20% is set against the net position, while the hypothetical price change for diversified portfolios such as the Treasury portfolio is 10%.

The currency risk is determined by the movement in a particular exchange rate by 5% against the euro. For each individual portfolio it is assumed that the exchange rate will move against the position.

In order to be able to estimate the risk of extreme movements in the market or crisis scenarios, in addition to the standard scenarios to analyse interest rate risk positions, we regularly carry out currency-specific and segment-specific stress tests based on historic movements in interest rates. As well as the classic parallel shift, the analysis includes other scenarios such as twisting, tipping or a bend in the yield curve. Together with the Macro Research unit, Market Risk Control also analyses the actual impact on earnings based on the Bank's current interest rate expectations and carries out the scenarios for interest rate risks in the banking book in line with the regulatory requirements.

In light of the turmoil in the financial markets, we have defined an additional subprime scenario for spread risk. The model parameters were stipulated based on the movement in credit spreads for various asset and rating classes in the period June 2007 to March 2008. The potential loss arising from expected changes in market value in the subprime scenario is calculated using extreme risk premiums on various capital market credit products against swap rates. The risk positions are limited at portfolio level using risk ratios derived from the extended scenario analyses and the VaR procedure.

Value-at-risk
While the VaR in the risk-bearing capacity analysis is calculated with a confidence level of 99.9% and a holding period of one year, to determine utilisation of the operating limits, the VaR is set at a holding period of ten days (for trading one day) and a confidence level of 95.0%. The VaR therefore corresponds with a probability of 95.0% to the maximum loss on a position held over a period of one or ten trading days.

The value-at-risk ratio for general market price risk is calculated for the whole Group using the variance/covariance method.

The ratios are calculated daily for all risk categories and all portfolios and compared to the associated portfolio related limits. The calculation is based on volatilities and correlations determined using historic changes in market parameters and taking account of market correlations within the risk categories interest rates, currencies and equities as well as correlations between the risk categories.

In addition to the general market price risk, we determine a separate VaR ratio for the spread risk in our portfolio of capital market credit products. The spread risk of the banking book is based on an analysis of historic changes in the individual asset classes. The specific interest rate risks based on the movement in price of the individual paper are taken into account in the trading book and included in the corresponding VaR ratios for the trading book.

Backtesting of VaR ratios
We regularly carry out backtesting for various portfolio levels to test the validity of our VaR forecast. To do this, the daily results theoretically achieved assuming unchanged positions on the basis of the market developments observed on the following day are compared to the forecast value-at-risk values for the previous day. We use the backtesting results to further de-

Fig. 10 Value-at-Risk of the DekaBank Group[1)]

€m	Holding period in days	Year-end 2008	Average 2008	Min/max 2008	Year-end 2007	Average 2007	Min/max 2007
Interest rate risk							
Trading	1	4.43	3.04	1.56 / 8.13	1.57	1.32	0.50 / 2.53
Treasury	10	12.39	24.55	9.92 / 44.04	22.58	15.05	8.26 / 25.05
Group	10	22.27	31.59	14.43 / 54.14	24.52	17.06	9.54 / 26.63
Share price risk				/			
Trading	1	1.30	2.83	0.33 / 6.48	0.40	0.93	0.29 / 2.82
Treasury	10	2.85	13.60	2.85 / 23.81	7.90	10.39	5.58 / 21.78
Group	10	6.49	17.18	6.49 / 38.22	8.60	11.50	5.92 / 23.25
Currency risk							
Trading	1	1.69	0.36	0.01 / 1.90	0.05	0.10	0.02 / 0.28
Treasury	10	9.91	2.17	0.81 / 10.35	0.79	0.63	0.18 / 1.54
Group	10	4.81	2.19	0.71 / 9.14	0.48	0.79	0.27 / 1.88

1) All VaRs were calculated on the basis of parameters used for internal risk calculation.

velop the risk model. The results are reported quarterly to AMLC by Market Risk Control.

Scenario matrix procedure

The scenario-matrix method is used to take account of the non-linear risks associated with options in the trading book. This method comprises a scenario analysis for changes in the two risk-determining parameters material to the corresponding option type. The matrix boundaries are regularly adjusted in line with the current fluctuation intensities of the underlying parameters.

Reporting of market price risks

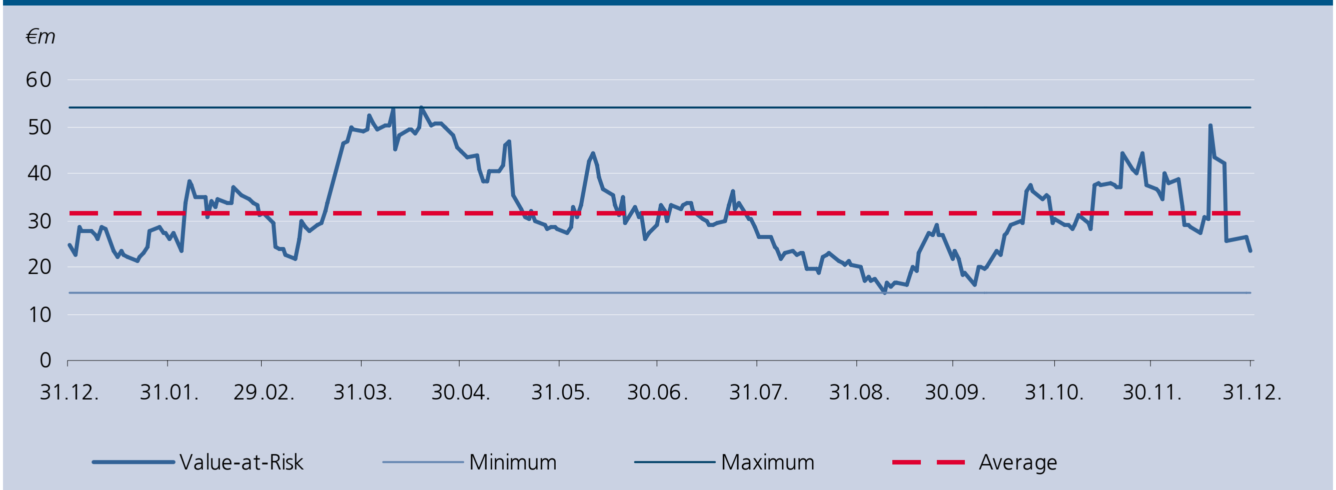
Market Risk Control monitors all risk limits and informs the Chairman of the Board of Management, the members of the Board of Management responsible for the divisions concerned and Risk & Finance, the heads of the Risk & Finance and Markets units as well as the COO of the C&M division on a daily basis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

Current risk situation

On average, traditional market price risks (interest rate, share price and currency risk) consistently increased during 2008 compared to the previous year. In contrast, the risk ratios fell compared to the end of 2007 by 9% for interest rate risk and by 24% for share price risk. Taking correlations into account, the value-at-risk from market price risks has risen year-on-year from €23.1m to €27.4m (Fig. 10).

The general interest rate risk was dominated in particular by the extreme volatilities in the first quarter and start of the second quarter, as well as following the Lehman insolvency. Especially towards the year-end, we considerably reduced open interest rate positions, particularly in short and medium-term maturities, thereby more than offsetting the high level of volatility. On average, the interest rate risk at Group level (value-at-risk, confidence level 95%, holding period ten days) rose considerably from around €17.1m in 2007 to around €31.6m in 2008. As at 31 December 2008, the general interest rate risk for the Group stood at €22.3m and was still lower than the figure at the 2007 year-end (€24.5m). Around 68% of the interest rate risk (previous year: 58%) was again largely attributable to euro positions (Fig. 11).

Fig. 11 Value-at-risk – Interest rate risk for the Group during 2008



The share price risk at year-end 2008 resulted primarily from start-up financing for mutual funds. At around €6.5m, the Group share price risk as at 31 December 2008 was down on the previous year's figure of €8.6m. In financial year 2008, volatilities increased sharply in the equity market. In the fourth quarter, we increased the reduction of open risk positions, thereby countering the increase in risk caused by volatility. On average for the year, risk in the Group rose by nearly 49% to €17.2m in 2008. At the end of 2008, around 30% (previous year: 56%) of Group-wide share price risk related to the euro-zone (Fig. 12).

At around €2.2m, the average currency risk for 2008 was higher than the low level at the end of the previous year (€0.8m). At the year-end, the Group risk stood at €4.8m. DekaBank's main currency positions relate to sterling and the US dollar (Fig. 13).

The spread risk from Liquid Credits positions stood at €73.1m (confidence level 95%, holding period ten days) as at 31 December 2008.

Of the total nominal value (net) of the Liquid Credits portfolio amounting to €11.8bn, (previous year: €7.5bn), around 64% was attributable to non-structured plain vanilla products such as bonds and credit default swaps (CDS) on single names or indices. As well as the bond portfolio, we also increased the portfolio of single name CDS during the financial year. In contrast, there was a reduction in the portfolio of index transactions.

Fig. 12 Value-at-risk – Share price risk for the Group during 2008

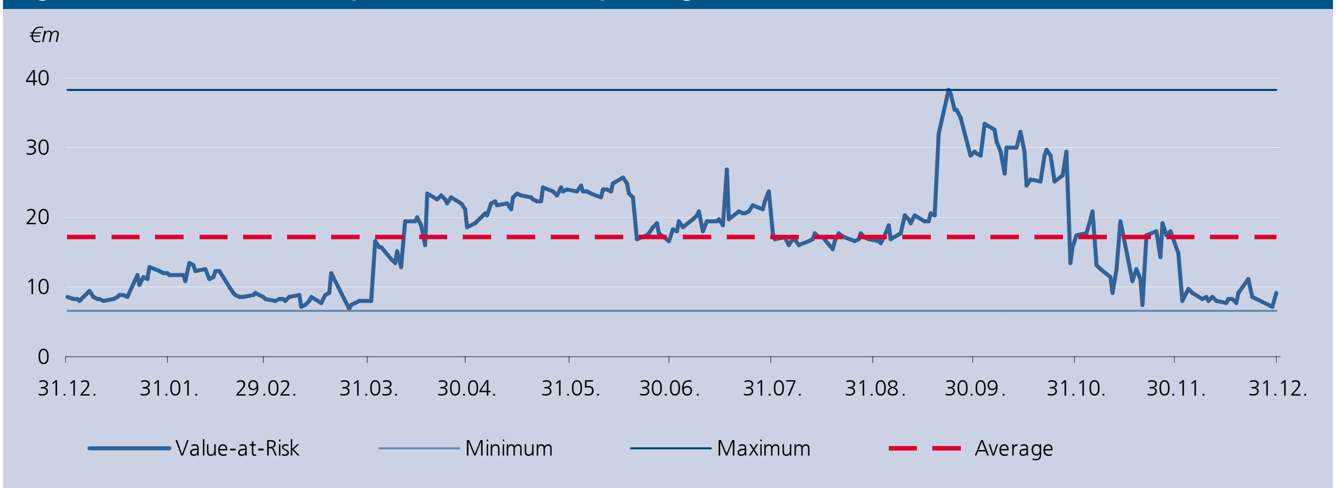
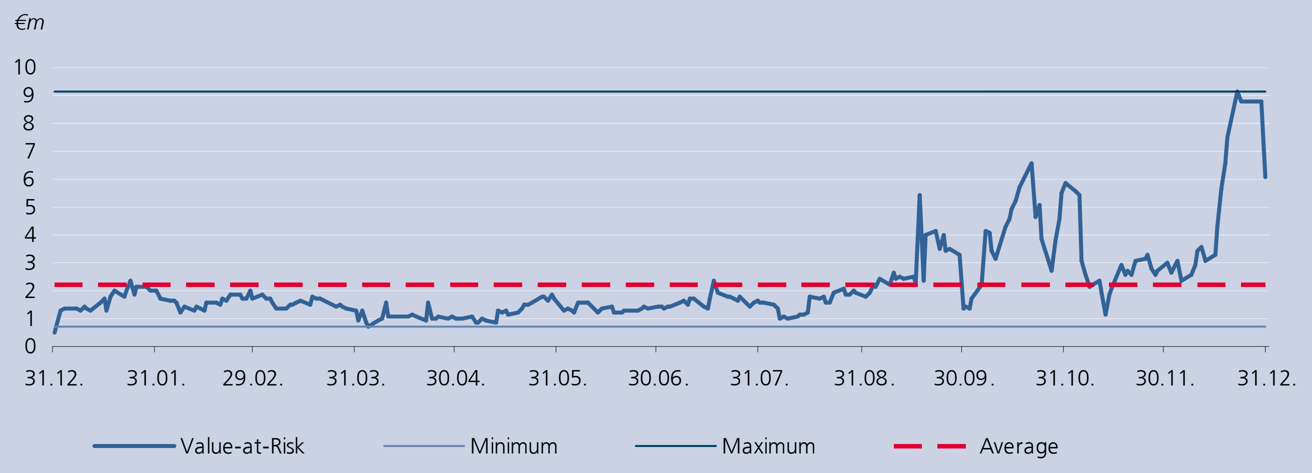


Fig. 13 Value-at-risk – Currency risk for the Group during 2008



The remaining portion of the portfolio related to structured credit products such as asset backed securities (ABS), residential and commercial mortgage-backed securities (RMBS and CMBS), collateralised loan obligations (CLOs), synthetic CDOs (CSOs) and to a lesser extent structured finance collateralised debt obligations (CDOs). While there was a slight increase in structured cash products, synthetic products (CSOs) were reduced. Around 91% of the overall portfolio focused on European counterparties and with an average rating of A- to BBB+, most of the portfolio carried a good rating.

The change in the spread VaR therefore reflects the overall change in the portfolio, increased market volatility and simultaneous widening of spreads as well as the further development of the VaR model.

Credit risks

Risk management and monitoring

Organisation of credit risk management
The credit risk strategy provides the parameters for the business activities of DekaBank in relation to borrower risks, issuer risks, advance performance risks and replacement risks, and forms the basis for comprehensive credit risk portfolio management. Moreover, the strategy outlines the credit risk principles for loans within the meaning of Section 19 (1) of the German Banking Act (KWG) and describes the segments, which represent the focus of the lending activities, including the specific risk determinants and minimum standards. The credit risk strategy applies to all organisational units in the Group. The strategy is specified by the Board of Management and reviewed at least once a year and discussed with the Administrative Board. The monitoring and management of credit risks is carried out according to standard principles, regardless of whether the risks stem from trading or non-trading transactions. The associated tasks are carried out by the Board of Management, the C&M and AMI divisions, by the Corporate Centre Credit Risk Office as well as the Group Credit Risk Control unit in the Corporate Centre Risk & Finance.

In line with the MaRisk, certain tasks in the credit process have to be carried out by departments other than the Front Office. Consequently the Corporate Centre Credit Risk Office is the administration office for early risk identification and is responsible for market-independent second recommendation for loan decisions as well as for checking and approving creditworthiness and ratings. In addition, the Corporate Centre Credit Risk Office checks the quality of the credit processes and monitors the transaction management of non-performing and troubled loans as a permanent member of the Monitoring Committee. This committee is responsible for managing and monitoring the transaction management of troubled loans and in addition to the head of the Corporate Centre Credit Risk Office, its members include the heads of the sub-divisions Credits, Markets and Liquid Credits from the C&M division, the head of the sub-division Real Estate Lending in AMI and the head of the Corporate Centre Legal Affairs. The Corporate Centre Credit Risk Office has a right of veto in the Monitoring Committee.

Other back office functions are assumed by the Credit Risk Control unit of the Corporate Centre Risk & Finance. This monitors credit risks at both portfolio and borrower level and is responsible for risk reporting with regard to credit risks. Its remit also includes methodology development, quality assurance and monitoring procedures to identify and quantify credit risk. Acceptances and other decisions regarding the further development of the rating procedure are the responsibility of the Rating Committee.

Independent risk assessment and monitoring is guaranteed by the functional and organisational separation of Credit Risk Office and Credit Risk Control from the C&M division as well as the Real Estate Lending sub-division in AMI.

Management, monitoring and limiting of credit risks
DekaBank manages and monitors credit risks both at individual transaction and borrower level as well as at portfolio level.

With regard to the economic borrower and, where applicable, the borrower unit, DekaBank has set sub-limits for the position risk and advance performance risk as well as a limit for the overall position. These sub-limits are preconditions for the granting of any loan. The limits are tailored to the borrower's creditworthiness as well as the collateralisation and term of the transactions. Country and sector viewpoints also play a role. Moreover, it is ensured that no individual exposure exceeds an appropriate sum. The Bank does not enter into credit transactions of a highly speculative nature or very unusual risks.

Special risk-limiting standards apply in the Credits sub-division depending on the type of financing. In acquisition financing, for example, care is taken to ensure the availability of meaningful market surveys and for project financing on technical security and appropriate price risk and cost reserves. In transport financing, the assessment of the assets financed and the operator play a key role, while for export and trade financing the country and supplier risks are particularly relevant. In the Liquid Credits sub-division for structured capital market investments we look at aspects such as the expertise and reputation of the parties to the transaction, an analysable market environment for the underlying transaction and an appropriate credit enhancement as well as compliance with an external minimum rating of A–. The composition of the portfolio as well as the concentration in individual portfolio segments is also limited by the Investment Directive for Structured Capital Market Products. In addition to criteria relating to individual transactions, there are product-specific exclusions. In property finance, in the Real Estate Lending sub-division, criteria such as the location, quality and profitability of the property as well as adequate advance sales for real estate project developments are of overriding importance.

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

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

Assessing creditworthiness
When assessing the creditworthiness of borrowers, in principle we do not rely on external ratings but use a finely differentiated, internal rating system at Bank and Group level which meets the requirements of the current rules to determine equity backing for financial institutions ("Basel II"). The system is based on internally determined ratings derived from estimates of the probability of default (PD).

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

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

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

The competence for bank internal acceptance or a decision relating to the further development of methodology and updating of the rating systems lies with the Rating Committee, which is made up of representatives from the Corporate Centres Credit Risk Office and Risk & Finance. In addition, the Rating Committee is responsible for the fundamental specification of the rating processes. The first-time introduction of new rating procedures requires the approval of the full Management Board.

The rating modules currently used are tailored to the relevant class of receivables. These include classic scorecard models through which a creditworthiness assessment is carried out on the basis of current quantitative and qualitative borrower features, as well as modules used to estimate the probability of default using simulated macro and micro scenarios for the relevant risk driver with regard to the expected cash flows. One module determines the probability of default using a portfolio approach. In addition to the modules indicated above, expert modules are also used for particular types of financing (e.g. structured trading finance).

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

All of the rating modules used are calibrated to one year probabilities of default. The DSGV master scale serves as a standard reference point for a differentiated creditworthiness assessment. This provides for a total of 21 rating classes for non-defaulting borrowers and three for defaulting borrowers.

The three default classes reflect the need to facilitate the recording of defaults on a differentiated basis. Regulatory default definitions in relation to Basel II hereby encompass a wide range of default events which can range from temporary payment problems through to insolvency of the borrower.

Each class is allocated a mean probability of default. On the whole, the DSGV master scale facilitates an extraordinarily differentiated measurement and forecast of default risks, which take account of the requirements of DekaBank's market environment. The ratings are updated annually or as and when required.

Quantifying credit risks

Limit monitoring
Counterparty-related credit risks are monitored at economic borrower and borrower unit level for all transactions conducted throughout the Group. The main exposures from lending and trading count towards the utilisation of the limits for advance performance risk, position risk and overall risks managed by Credit Risk Control at head office. Off-balance sheet items such as irrevocable lending commitments or guarantees provided are included. In principle, the market value of the respective transaction is used. Where this is not directly evident in the market, we use the present value or the maximum current or future drawdown.

Limit overruns at economic borrower unit level are reported to the Board of Management immediately. Portfolio-related limits such as rating-dependent country limits or limits under the Investment Directive for Structured Capital Market Investments are monitored separately.

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

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

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

Credit portfolio model
In addition to the structural analysis of the credit portfolio, credit risks are comprehensively illustrated using a portfolio model. This is aimed in particular at providing suitable risk ratios and risk premiums for portfolio and bank management, determining the capital required or economic equity utilisation level by credit risks and to integrate these in the risk-bearing capacity analysis and to quantify concentration and diversification effects.

The portfolio model is based on a credit metrics approach. In addition to the default risks in the narrower sense, the risks arising from a change in creditworthiness are also taken into account in the form of rating migrations. The probability allocation for changes in the value of the portfolio caused by credit risk is generated using a Monte Carlo simulation. A key result of the portfolio model is that it determines a credit value-at-risk (CVaR) with a confidence level of 99.9% and an assumed holding period of one year. The CVaR is currently determined each month Group-wide and incorporated in the processes and reports relevant to the management of credit risks.

Credit risk reporting
In addition to monitoring limits on a daily basis, Credit Risk Control prepares a summary report each month containing the main explanations and any partial limit overruns during the reporting month.

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

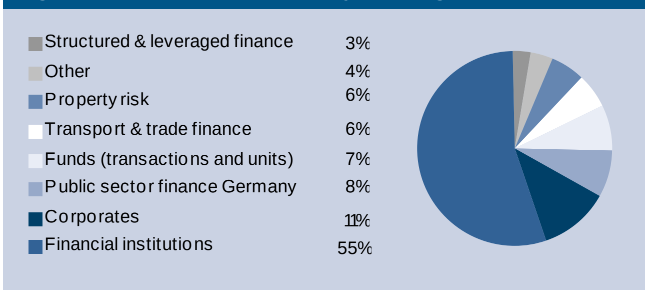
The credit risk report is prepared as at the end of every quarter and is submitted to the Board of Management and in abbreviated form to the Administrative Board.

Current risk situation

DekaBank expanded its loan portfolio again in financial year 2008. The gross loan volume rose by €28.3bn to €151.4bn. The increase was largely attributable to bonds and derivatives and a simultaneous reduction in repo and lending transactions.

At €83.6bn (previous year: €79.9bn), or 55.2% (previous year: 64.9%) at the year-end, financial institutions continued to account for the largest share of the gross loan volume (Fig. 14).

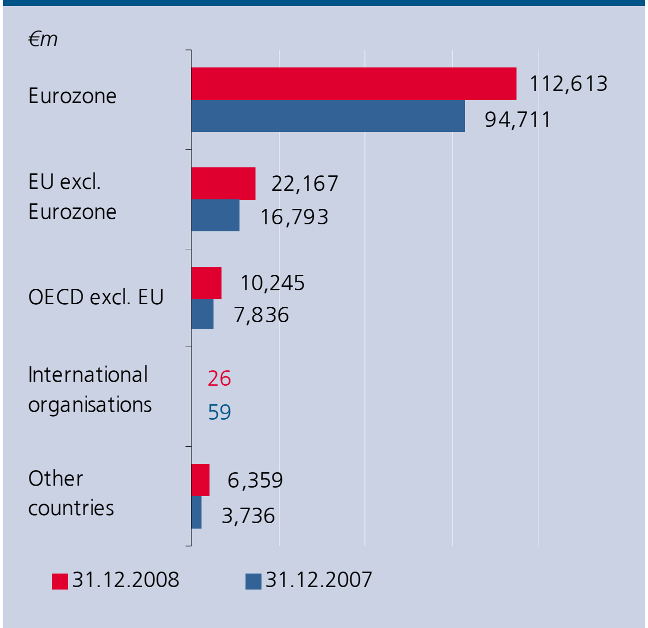
Fig. 14 Gross loan volume by risk segment



However, growth in the gross loan volume was disproportionately low in this risk segment. In contrast, significant increases were recorded in the corporates risk segment (€9.9bn or 133%) and, as a result of the portfolio increase in structured finance and project and special finance, in the transport & trade finance (€4.9bn or 123%) as well as the structured & leveraged finance segments (€2.1bn or 79%).

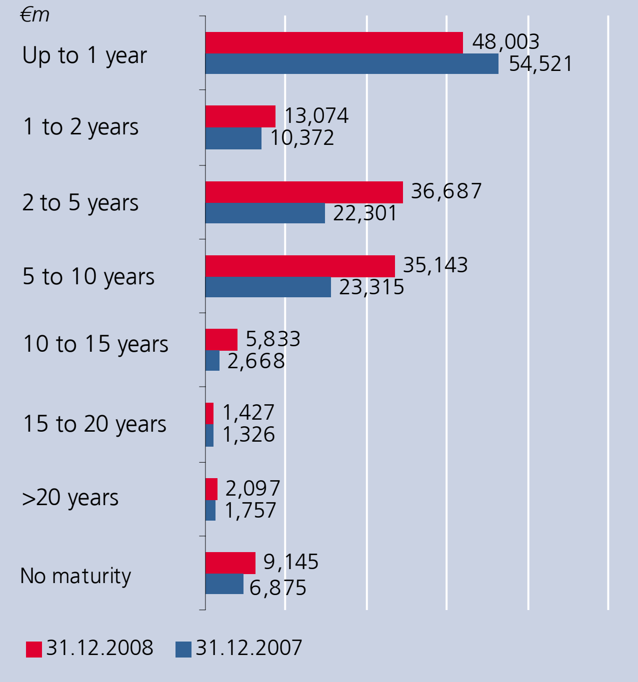
In terms of regional distribution, 74.4% of the gross loan volume (previous year: 76.9%) was granted to borrowers in the eurozone. Of this, 74.8% was attributable to Germany. Again only a small proportion of the gross loan volume (14.6%) related to EU countries outside the eurozone. Countries with a rating between 6 and 15 on the DSGV master scale are monitored using global country limits. At the year-end, only 15.8% of this limit had been utilised (Fig. 15).

Fig. 15 Gross loan volume by region



The average remaining maturity of the gross loan volume rose from 3.1 years to 3.8 years during the financial year. This was due above all to the sharp fall in repo/lending transactions with a maturity of less than one year as well as the increase in loans with longer maturities (Fig. 16).

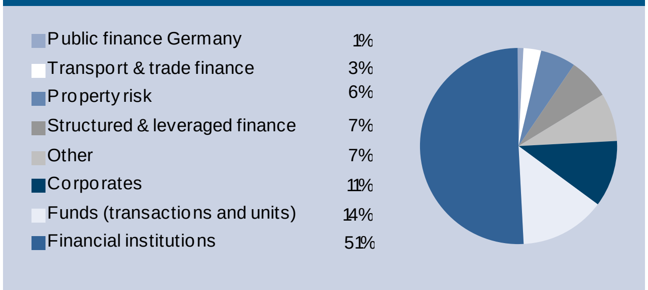
Fig. 16 Gross loan volume by remaining maturity



While the gross loan volume was €28.3bn, or 23.0%, higher than at the end of 2007, the net loan volume increased by €23.4bn, or 51.8%, to €68.5bn. This was mainly driven by the rise in the financial institutions risk segment, which was up by €12.4bn at €35.0bn. The higher percentage rise in the net loan volume compared to the gross loan volume is essentially due to the further decline in the risk-reducing effect of the guarantor's liability. Nevertheless, the guarantor's liability is still the most important form of collateral; this shows the importance of lending to savings banks and *Landesbanken*. The reduction in risk relating to claims on the public sector were also significant. The changes in risk reductions from offsetting agreements (especially netting) essentially reflect the movement in business volume; overall the level was approximately the same as the previous year (Fig. 17).

With €35.0bn (previous year: €22.6bn), which corresponds to 51.0% of the total volume, financial institutions also constitute the most important segment in the net loan volume (Fig. 18).

Fig. 18 Net loan volume by risk segment



The ten biggest borrowers accounted for a share of 24.4% (previous year: 23.0%) of the net loan volume.

In terms of regional distribution, the eurozone dominates in the net loan volume as well. The share of borrowers from EU countries which do not use the single currency was down on the previous year (18.3%) at 11.9%.

Fig. 17 Reconciliation of gross loan volume to net loan volume

€m	31.12.2008	31.12.2007
Gross loan volume	**151.4**	**123.1**
Claims on federal government, states and municipalities	8.8	9.1
Guarantor's liability	22.1	30.8
Personal and material collateral	11.1	7.1
Netting of financial futures transactions	8.0	1.8
Covered securities	5.9	5.2
Netting of reverse repos	11.3	14.5
Netting in securities borrowing/sale and resale transactions	3.4	2.7
Lending/sale and resale transactions	1.0	5.9
Other risk reductions	11.3	0.9
Net loan volume	**68.5**	**45.1**

The borrower ratings have deteriorated slightly compared to financial year 2007. With regard to the net loan volume, the average rating is 3 using the DSGV master scale (previous year: A-).

For 93.2% of this volume the rating class is unchanged. The rating has improved for 1.9% and 4.9% moved down to a lower rating class.

Overall, as at the reporting date, 74.3% (previous year: 75.0%) of the net loan volume has a rating of A- or better. This is primarily due to the high net loan volume to financial institutions; these have an average rating of A+. In contrast, the probability of default in segments such as transport & trade finance and structured & leveraged finance is naturally higher (Fig. 19).

As at year-end 2008, the credit VaR (risk horizon one year, confidence level 99.9%) stood at €1.49bn, up €0.46bn on the comparable figure for the previous year. The reasons for the rise include the increased overall exposure as a result of the investment of liquidity. During 2008, the CVaR remained within the €1.03bn to €1.49bn range. Around 38% of the CVaR is attributable to financial services providers. With 46.7% of the CVaR, the portfolio has a high concentration of borrowers from Germany while a further 38.4% refers to borrowers in other European countries.

The provisions for loan losses reported on the balance sheet totalled €360.5m (previous year: €130.7m). Of this €274.3m (previous year: €35.3m) relates to specific valuation allowances for loans and securities, €24.2m (previous year: €20.0m) to portfolio valuation allowances for country risks, €48.0m (previous year: €63.2m) to portfolio valuation allowances for creditworthiness risks and €14.0m (previous year: €12.2m) to provisions for creditworthiness risks in off-balance sheet lending.

The allocation of provisions for loan losses and securities to the segments is shown in the table below (Fig. 20).

As collateral for the impaired individual exposures, in the financial institutions risk segment, securities were taken into account and charges on property in the property risk segment and aircraft mortgages and sureties were included for the transport & trade finance risk segment. Sureties were taken into account when determining portfolio valuation allowances for country risks. Portfolio valuation allowances for creditworthiness risks were determined taking the collateral of sustainable value into account. In the past financial year, charges on property provided as collateral were realised and sureties utilised. The total amount of the collateral utilised amounts to €1.5m (previous year: €9.0m).

Fig. 19 Net loan volume by risk segment and rating

€m	Avg PD in bps	Avg rating 12/08	31.12.2008	31.12.2007
Financial institutions	6	A+	34,980	22,628
Corporates	24	4	7,495	6,445
Public Finance	2	AA+	3,349	1,383
Public finance Germany	1	AAA	498	571
Public infrastructure	38	5	984	537
Transport & trade finance	44	5	2,113	1,300
Structured & leveraged finance	51	6	4,708	2,628
Property risk	41	5	4,081	3,030
Retail portfolio	2	AA+	918	821
Funds (transactions/units)	2	AA+	9,291	5,620
Equity investments	71	6	107	170
Total result	**15**	**3**	**68,526**	**45,133**

Fig. 20 Provision for loan losses by risk segment

€m	Financial institutions	Funds	Transport & trade finance	Structured & leveraged finance	Property risk	Public infrastructure	Equity investments	Corporates	Other	31.12. 2008	31.12. 2007	31.12. 2006
Impaired gross loan volume 1)	538.5	2.8	165.2	60.0	44.5	0.0	0.0	0.0	0.0	811.0	171.5	343.8
Collateral at fair value	173.8	0.0	95.8	0.0	22.7	0.0	0.0	0.0	0.0	292.3	83.8	179.4
Impaired net loan volume 1)	364.7	2.8	69.4	60.0	21.8	0.0	0.0	0.0	0.0	518.7	87.7	164.4
Provisions for loan losses 2)	213.4	1.8	53.2	51.1	34.8	2.3	3.0	0.6	0.3	360.5	130.7	201.0
Specific valuation allowances	206.0	1.4	14.1	31.8	21.0	0.0	0.0	0.0	0.0	274.3	35.3	106.6
Provisions for loan losses	0.0	0.0	7.1	3.1	0.8	0.0	3.0	0.0	0.0	14.0	12.2	21.0
Portfolio valuation allowances for country risks	0.0	0.0	24.2	0.0	0.0	0.0	0.0	0.0	0.0	24.2	20.0	20.0
Portfolio valuation allowances for creditworthiness risks	7.4	0.4	7.8	16.2	13.0	2.3	0.0	0.6	0.3	48.0	63.2	53.4

1) Gross and net loan volumes impaired by specific and country valuation allowances

2) Provisions for loan losses in balance sheet exceed the net loan volume as portfolio valuation allowances have been recognised.

Operational risks

Risk management and monitoring

Operational risks (OR) naturally depend heavily on the type of business activity and unlike market price and credit risks, are therefore process-specific. Consequently, as part of its OR strategy, DekaBank adopts a decentralised approach to identifying and assessing operational risks as well as to loss documentation. The heads of the respective Group units are responsible for managing operational risks in their divisions. This includes the obligation to systematically indicate latent risks and damages above a defined minor limit. This reporting obligation is monitored by the Group Operational Risk Control unit and Internal Audit.

The Group Operational Risk Control unit has the decision-making authority with regard to methodology applied to operational risks in terms of the standardisation and appropriateness of the terms defined Group-wide, the methods and procedures used as well as for the regular reporting to the Board of Management and supervisory bodies. In addition, Group Operational Risk Control is responsible for implementing statutory and regulatory requirements relating to operational risk management.

Through the comparison with existing risk cover funds, DekaBank ensures that it can bear operational risks at all times. On this basis, these risks are incorporated in the equity management of DekaBank, through which the divisions are provided with the corresponding capital to achieve their strategic targets and profit goals. The information gathered decentrally is aggregated by Group Operational Risk Control and reported to the heads of the operating units and the Board of Management. The risk assessments and loss notifications are validated and plausibility-checked by Group Operational Risk Control. Moreover, it ensures that risk assessments are carried out on a standardised basis.

To identify, measure and manage operational risks, DekaBank uses cause-based risk categorisation.

Business continuity management

DekaBank has put in place a Group-wide framework as well as organisational and technical regulations to ensure a standard Group-wide approach in the event of a disaster. To ensure an appropriate and direct response, DekaBank has established a business continuity plan which meets various problems with centralised and decentralised measures in a defined escalation procedure. Depending on the extent and severity of the failures, these are reported directly to the crisis management team which includes the Group Board of Management. Defined reinstatement teams comprising employees from all specialist departments are in place for the emergency operation of critical business processes and reinstatement of operations. These teams restore the business processes interrupted by the disaster and ensure that business operations continue as smoothly as possible.

Premises-related failure or loss
To ensure against premises-related failure or loss, DekaBank pursues an internal recovery strategy both in and outside Germany by using its own buildings and infrastructures. In terms of Germany, this means for example that the two locations Frankfurt-City and Frankfurt-Niederrad serve as back-ups for each other. This ensures that the specialist divisions concerned have all the information and resources they need at their emergency workstations to facilitate emergency business operations.

IT failure or loss
A series of organisational and technical regulations and measures ensures that the failed IT systems can be restored promptly. Extensive, practical tests are regularly carried out to check that the measures are taking action and leading to the desired outcome.

Quantifying operational risks

DekaBank has a comprehensive management and controlling system for operational risks. The methods used are decentralised self assessment and Group-wide loss documentation and scenario analysis. DekaBank does not use the risk indicators as a standalone method but uses them to support the self assessment and scenario analysis as well as for risk quantification. Based on the data generated through these methods, using an advanced quantification model recognised by the Federal Financial Supervisory Authority (BaFin), we determine the operational risk as a value-at-risk ratio which is used both for internal management as well as external reporting.

Self assessment
In the process-based self assessment method, the operational risks throughout the Group are identified and assessed on a decentralised basis by experienced employees (assessors) for their own reporting unit in the form of detailed, regular and structured loss scenarios. To measure the risk, the amount and frequency of losses are assessed and aggregated to form a loss potential. Self assessment is aimed particularly at the implementation of a consistent and Group-wide risk inventory which can be used by the heads of the Group units to derive and prioritise action plans to reduce operational risks.

Scenario analysis
Scenario analysis is used for a detailed examination and assessment of severe losses arising from operational risks, whose effects potentially affect several Group units and cannot therefore be adequately covered by the self assessment process. The entire range of operational risks can be covered and systematically assessed by combining the two methods.

As with self assessment, scenario analysis is conducted by process and system experts to analyse future operational risks. They identify the main risk drivers in a loss scenario and vary the severity of such drivers, allowing the impact of different scenarios to be assessed.

The scenario analysis delivers a comprehensive loss illustration, in particular the range of potential losses including consideration of extreme stress. Scenario analysis is not just used to quantify risks; we also use it to draw up measures to limit operational risks and recommend courses of action in the event of a scenario occurring.

Loss documentation
All losses incurred from operational risks above the minimum limit of €5,000 are recorded and analysed in a central loss database. This also includes measures to reduce and avoid future losses and an analysis of the action required.

By comparing the losses occurred with the results of the self assessment and scenario analysis, we not only validate our risk quantification methods but also derive assumptions regarding the distribution of amounts involved and the frequency of losses, which in turn form the main basis for the use of quantitative models to determine the equity requirement.

In addition, DekaBank participates in the external loss consortium of the Bundesverband Investment und Asset Management e.V. (BVI) and the GOLD consortium of the British Bankers Association (BBA). The external loss data is used both directly in the quantification and indirectly as a source of ideas for the self assessment and scenario analysis.

Reporting of operational risks

The quarterly risk report informs the heads of the Group units about all the key operational risks, thereby facilitating effective management. In addition, an aggregate report is submitted to the Board of Management on a quarterly basis. Alongside summary information on the operational risks in the Group, this includes detailed information on the measures taken or planned regarding major individual risks in the Group units. Moreover, the value-at-risk ratio is incorporated in the analysis of the Group's risk-bearing capacity.

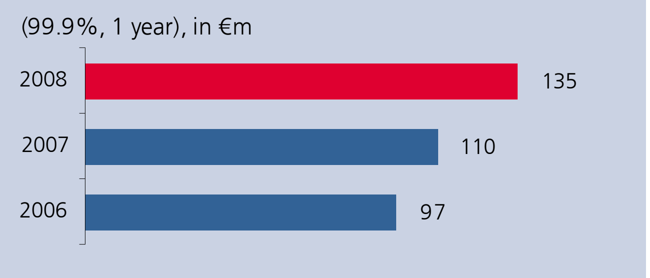
Reporting obligations apply to losses that have occurred; these are graded in accordance with the loss involved and ensure that the Board of Management and Internal Audit are informed in a timely manner.

Current risk situation

At €135m, the value-at-risk determined in accordance with the advanced measurement approach (risk horizon one year, confidence level 99.9%) was up 22.8% on the comparable figure for the previous year (€110m). The figure moved within the

€109m to €135m range. The rise results from the expansion of business activities, the significantly more volatile market environment and the losses incurred in 2008 (Fig. 21).

Fig. 21 Value at Risk



This was based on information comprising the data on losses incurred by the external loss syndicates on the one hand and internal loss documentation on the other. The number of internal losses fell from 66 cases in 2007 to 61. In contrast, at €5.4m for realised losses and €15m for provisions for potential losses, total losses were significantly higher than the previous year (€2.0m).

The potential losses from operational risks determined as part of the risk inventory (ex-ante assessment) rose over the course of the year by 34.8% to €53.6m. This assessment reflects the higher loss potential as a result of the current situation in the banking environment.

Liquidity risks

Risk management and monitoring

DekaBank's liquidity risk is managed and monitored as an independent risk type. The market and liquidity risk strategy applies to all organisational units in the Group. The strategy is determined by the Board of Management and reviewed annually and discussed with the Administrative Board. Any necessary adjustments are carried out under the lead management of the Corporate Centre Risk & Finance.

In principle, liquidity risk is managed on a cross-portfolio and Group-wide basis. All product types are included. The central aims are to avoid liquidity bottlenecks at Group level and ensure solvency at all times as well as to generate positive profit contributions from liquidity management. The planning, measurement and monitoring of liquidity is based on the liquidity status, funding matrices, stress scenarios and liquidity key ratios in accordance with the Liquidity Directive (Section 11, German Banking Act). As liquidity risk is not a direct income risk that can be cushioned with equity, we do not include it in the risk-bearing capacity analysis.

Quantifying liquidity risk

Liquidity status

The current liquidity status of DekaBank is determined on a daily basis by the Short Term Products unit in the Markets sub-division and is used by this unit to manage liquidity on a day-to-day basis.

Funding matrices

In addition, the liquidity position is analysed and monitored by Market Risk Control in the Corporate Centre Risk & Finance. To this end, the following funding matrices amongst others are drawn up and reported: legal maturities, normal business operations, downgrade, funds crisis and banking crisis.

The purpose of the funding matrices is to show the undiscounted future expected cash flows across the portfolio as at the reporting date on the basis of which the liquidity requirement or surplus (liquidity gap) is determined per maturity band. In addition, the accumulated liquidity gap is shown. The cash flows in line with the legal maturities form the basis of all funding matrices.

The normal business operations funding matrix is used to regularly monitor and manage liquidity risks. Modelling and renewal assumptions are made to illustrate the cash flows on certain product types (e.g. securities or deposits eligible as collateral for ECB borrowings or repoable). The sum total of the cash flows produces a liquidity gap in each maturity band. In addition to this, the liquidity potential is calculated which takes into account freely available funds such as assets which can be readily converted into liquid funds such as securities, surpluses in cover registers and other funding sources.

The sum of the accumulated liquidity gap and accumulated liquidity potential produces the accumulated liquidity balance used as the basis for management.

As part of managing the liquidity position, the funding matrices are used on a daily basis in the Funding/Liquidity Management unit in the Markets sub-division. Their application includes the strategic management of DekaBank's issuance activities in the money and capital markets as well as strategic asset allocation.

Stress scenarios

Through stress scenarios carried out every two weeks or each quarter, we investigate the influence of various scenarios on the liquidity position. We divide the underlying models into a scenario that directly affects DekaBank (e.g. downrating through cut in DekaBank's rating by rating agencies) as well as other scenarios (e.g. funds and banking crisis). Depending on the stress scenario, various modelling and renewal assumptions are made and different financing requirements assumed.

As a result of the turmoil caused by the financial market crisis, the banking crisis funding matrix is also used to manage and monitor the liquidity position and has also been used on a daily basis in the Funding/Liquidity Management unit in the Markets sub-division since October 2008.

Liquidity ratio under the Liquidity Directive
DekaBank liquidity risk mitigation measures are also guided by the liquidity requirements of the Liquidity Directive (Section 11, German Banking Act). The liquidity ratio pursuant to the Liquidity Directive is calculated as the ratio of short-term cash inflows and outflows of DekaBank with a maturity of up to one month. Monitoring ratios for up to one year are also calculated. Potential payment obligations, e.g. in relation to credit line commitments or deposits, are included in the individual maturity bands and weighted according to their drawdown probability (call-off risk) in accordance with the regulatory weighting factors. Certain product types, such as derivatives, are not included in line with regulatory requirements.

Reporting the liquidity risk

The funding matrix based on normal business operations as well as the banking crisis funding matrix implemented as a result of the financial market crisis are prepared at least every two weeks by Market Risk Control as part of independent monitoring and includes a verbal assessment of the liquidity situation by the Funding/Liquidity Management unit to the full Board of Management, the Asset Liability Management Committee and the head of the Markets and Risk & Finance units. In this regard, early warning limits are defined in relation to the liquidity balance (= accumulated liquidity gap plus accumulated liquidity potential) which are also monitored by Market Risk Control. Overruns are reported to the Board of Management via the ALMC.

In the wake of the financial market crisis, the extent and frequency of risk reporting was modified together with the group of recipients for the reporting. Consequently, the banking crisis funding matrix was prepared daily and reported to the Bundesbank and German Federal Financial Supervisory Authority (BaFin) together with the funding matrix based on normal business operations.

Moreover the liquidity ratio pursuant to the Liquidity Directive is monitored daily in the reporting system of the Corporate Centre Risk & Finance and passed on to Funding/Liquidity Management and Short Term Products in the Markets subdivision for management.

Current risk situation

DekaBank continued to have a very sound level of liquidity in financial year 2008. As a result of the high volume of liquid securities (often eligible as collateral for central bank borrowings) and the surplus cover in the cover pool, but also through the corresponding repurchase agreement transactions, DekaBank has extensive potential liquidity that can be made liquid at short notice.

During the reporting period, DekaBank continued to strategically use its available surplus liquidity to increase its investments in selected asset classes on a sustained basis. Here the Bank achieved high margins as a result of the steady rise in spreads over the course of the year and secured these on a permanent basis for the next few years. The liquidity surplus has been reduced as a result since the start of 2008.

The accumulated liquidity balance at the short end (less than a month) as at 31 December 2008 totalled €13.7bn (31 December 2007: €17.5bn); (Fig. 22).

Fig. 22 Normal business operations funding matrix of DekaBank as at 31 December 2008

€m	<=1M	>1M-12M	>12M-7Y	>7Y	Total
Securities, loans and promissory note loans [1]	10,572	17,640	46,425	11,509	86,146
Other money market transactions (lending) [2]	16,565	7,149	1,929	103	25,746
Derivatives	-153	-2,991	-4,819	-213	-8,175
Refinancing funds[3]	-26,948	-17,338	-46,449	-9,005	-99,740
Other balance sheet items [4]	0	-89	-111	-2,707	-2,906
Liquidity balance (acc. gap + acc. liquidity potential)					
DekaBank	13,660	6,371	-2,328	-114	
DekaBank Luxembourg	-458	3,999	5,271	-175	

1) Including irrevocable lending commitments and guarantees
2) Of which approx. € 14 bn collateralised
3) Including in particular short term products, own certificates and funding
4) Including silent capital contributions and equity

The regulatory requirements of the Liquidity Directive were clearly exceeded at all times in financial year 2008. The liquidity ratio of the first maturity band determined on a daily basis stood at between 1.25 and 1.66. The figure at the close of the year amounted to 1.43 in 2008 with an average of 1.43 for the year.

Other risks

Business risk

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

For Asset Management activities, the main risk factors are the assets under management and the level of commission. The volatility of these risk factors is simulated by asset class, that is for equities, bonds and property, using comparison indices. Parallel to this, a self assessment of the material business risks is carried out for asset management activities using scenarios. This allows the business divisions to counter the main identified business risks with risk-reducing measures.

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

The business risk has increased by €65m to €423m compared to the previous year (€358m). Essentially, the increase resulted both from higher volatilities and a higher general risk.

Shareholding risk

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

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

As at the end of 2008, the shareholding risk amounted to €45m, down on the previous year's figure (€52m) by 13.5%. A decline in the book value of equity investments, including as a result of amortisation of the shareholding in S Broker AG & Co. KG and consolidation of the subsidiary ETFlab Investment GmbH, was countered by a slight increase in volatility.

Property risk

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

The property risk was virtually unchanged at around €8m (previous year: €7m) and was therefore of only secondary importance.

Property fund risk

The property fund risk results above all from the units taken of the fund Deka-ImmobilienFonds into the Bank's own portfolio. It is measured using the volatilities of historic, relative changes in value of the properties in the portfolio of the respective property funds. The value changes are recorded separately by location and usage type and weighted with the associated property values. This results in an aggregate volatility of the value changes in the property portfolio.

The property fund risk continued to decline in the reporting year. At €150m, it was down 10.7% on the level at the end of 2007.

Structured capital market credit products

DekaBank conducts structured credit substitute transactions in the Liquid Credits sub-division. These are included in full in DekaBank's risk management as outlined above. We intend to reduce this portfolio over the coming years through both active management and the scheduled expiry of transactions. We will only enter into new transactions to improve the structure on a selective basis and in accordance with particular requirements. The reduction aims to achieve an average rating of A.

Management, monitoring and limiting

As with all other credit transactions, the Corporate Centre Credit Risk Office assumes the role of administration office for early risk identification. This office is also responsible for the market-independent second recommendation and the monitoring of transactions at individual transaction level.

In line with DekaBank's current Group-wide credit risk strategy, limit monitoring is carried out independently and on a daily basis by Risk Control using the Investment Directive for Structured Credit Derivatives which fully applies to all DekaBank's structured capital market credit products and alternative investments. Any limit overruns are notified immediately to the full Board of Management.

The Investment Directive initially defines a global limit for capital market products structured as securities such as ABS, MBS, CLO, as well as another global limit for synthetic products such as index tranches. The two limits are also supported by a limit system which differentiates the limits by product type and risk class. Furthermore, there is a global limit for alternative investments such as CPPI.

The above limit system is flanked by product-specific minimum criteria and product-specific exclusion criteria.

Rating overview

Overall, the creditworthiness of the portfolio is good to very good. The rating overview below shows the external ratings on a conservative basis, to the effect that in the event of several external ratings for a transaction, the overview shows the lower rating.

More than 85% of the structured capital market credit product positions have an external rating of AA- or better.

Only the bespoke CSO transactions in the portfolio were affected by significant downgrades in the fourth quarter following the defaults in the markets, for example the Icelandic banks and Lehman Brothers (Fig. 23).

Fig. 23 Structured capital market credit products by rating class (nominal value in €m)

Product		AAA	AA	A	BBB	Non-investment grade	unrated	Total
Structured	ABS	310.0	25.6	100.9	0.0	3.6	6.8	446.9
	RMBS	363.6	164.4	144.1	0.0	0.0	0.0	672.1
	CMBS	471.6	117.8	62.8	8.9	0.0	0.0	661.1
	CLO	723.9	267.0	93.9	0.0	0.0	0.0	1,084.8
	CSO [1)]	50.0	50.0	0.0	0.0	230.0	321.9	651.9
	Structured finance CDO	20.0	10.0	0.0	0.0	0.0	0.0	30.0
	Balance sheet lending	0.0	990.0	0.0	0.0	0.0	0.0	990.0
Alternative	CPPI	0.0	100.0	0.0	0.0	0.0	0.0	100.0
Total		**1,939.1**	**1,724.8**	**401.7**	**8.9**	**233.6**	**328.7**	**4,636.8**

1) The CSO index tranches in the portfolio are shown as unrated under CSO. This includes two iTraxx series 7 (tranche 6-9, maturity 7 years) protection seller positions totalling €150m (nominal value), two protection buyer positions on the CDX series 8 (tranche 7-10, maturity 10 years) totalling USD 100m (nominal value) as well as protection buyer positions on the iTraxx series 7 (tranche 6-9, maturity 10 years) amounting to €100m.

Fig. 24 Structured capital market credit products by rating class (nominal value in €m)

Product	Structured							Alternative	Total
Country	ABS	RMBS	CMBS	CLO	CSO	Structured finance CDO	Balance sheet lending	CPPI	
Germany	224.9	32.4	172.5	47.0	0.0	0.0	594.0	0.0	1,070.8
UK	12.6	164.5	292.1	17.0	0.0	0.0	0.0	0.0	486.2
Spain	12.6	131.7	0.0	0.0	0.0	0.0	0.0	0.0	144.3
Italy	60.9	165.1	13.0	0.0	0.0	0.0	0.0	0.0	239.0
Benelux	8.2	114.4	171.5	0.0	0.0	0.0	0.0	0.0	294.1
Scandinavia	52.0	0.0	12.0	21.7	0.0	0.0	0.0	0.0	85.7
Rest of Europe	27.5	64.0	0.0	542.2	250.0	20.0	396.0	0.0	1,299.7
USA	39.0	0.0	0.0	239.6	351.9	10.0	0.0	50.0	690.5
Other/global	9.1	0.0	0.0	217.3	50.0	0.0	0.0	50.0	326.4
Total	**446.8**	**672.1**	**661.1**	**1,084.8**	**651.9**	**30.0**	**990.0**	**100.0**	**4,363.8**

Country overview

DekaBank does not have any US subprime or Alt-A exposure. All of the RMBS and CMBS transactions in the portfolio are concentrated on Europe. There is exposure to the USA through CLO and bespoke CSO transactions (Fig. 24).

IFRS categorisation

In financial year 2008, DekaBank allocated most of the structured capital market credit products to the IFRS valuation category at fair value (afv) or designated at fair value (dafv). The realised and unrealised valuation result in this IFRS category is reported in the income statement. In particular, the product groups CSO and structured finance CDO which suffered considerable losses in fair value as a result of the financial market crisis, are taken into account in full in the income statement. Individual transactions in the ABS, RMBS, CMBS and CLO product groups, which in principle were cash transactions, were allocated to the IFRS category loans and receivables (lar) in 2008. In this IFRS category, the transactions were measured at amortised cost. The paper allocated to the lar category, were reviewed for impairment as a result of changes in creditworthiness. The total for the fair values (afv-dafv category) and amortised cost (lar category) is shown in the following overview in the "Book value" column (Fig. 25).

Valuation procedure

As a result of the ongoing market turmoil as at the reporting date, the fair values for selected non-synthetic securitisations were determined for the first time using a modified discounted cash flow model. Where the current spreads for the relevant transactions are deemed to be valid, the parameters available as at the cut-off date were used as the inputs for the dis-

Fig. 25 IFRS valuation categories and book values (in €m)

				IFRS valuation category	
Product		Nominal	Book value	afs	LaR
Structured	ABS	446.8	401.1	302.4	98.7
	RMBS	672.1	576.8	528.9	47.9
	CMBS	661.2	579.9	406.0	173.9
	CLO	1,084.8	936.3	889.3	47.0
	CSO CLN	230.0	26.4	26.4	0.0
	Structured finance CDO	30.0	12.1	12.1	0.0
	Balance sheet lending	990.0	991.2	991.2	0.0
Alternative	CPPI	100.0	95.4	95.4	0.0
Total		**4,214.9**	**3,619.2**	**3,251.7**	**367.5**
Structured	CSO CDS [1)]	421.9	-76.0	-76.0	

1) Gross nominal value shown (sum of protection seller and protection buyer positions)

counted cash flow model. Where indicative prices were available from price service agencies, these were used to check the plausibility of the calculated fair values.

Against the backdrop of the financial market crisis, and the resultant inactive markets as well as the partial significant liquidity spread developments, an increased number of securities were identified for which external prices were deemed to be invalid and no fair value could therefore be determined using current market parameters. For these securities, the fair value on the reporting date was determined on the basis of a modified discounted cash flow model. The underlying discounting rate in the model was determined using the current swap curve, implied historic spread, which was determined on the basis of the last available active (liquid) market price – and an adjustment for changes in creditworthiness where applicable. The value calculated in this way was also adjusted by a factor, determined via an indicator model, which reflects how the most recently monitored market price would have had to change (liquidity factor). In our opinion, the resultant fair value represents the price on which rational market players would reach agreement.

The fair value of synthetic securitisation transactions is determined using Copula models, which were calibrated on the market prices of liquid tranches. These are also shown in the fair value hierarchy as "based on derived parameters", as the correlation assumptions of the underlying CDS portfolios represent the main parameters for the measurement.

Market price risk

In addition to the standard scenarios used in the market price risk, we examine the specific interest rate risk from structured capital market credit products. The specific risk of these products results from the variability of the product-specific or counterparty-specific spread. To quantify this part of the market price risk, the counterparty-specific spread curves are shifted in line with the portfolio-specific degree of diversification. The specific interest rate risk across all individual transactions arises from the difference of the net present values determined using the current and shifted spread curve.

In light of the turmoil in the financial markets, we have defined an additional subprime scenario for spread risk. The model parameters were stipulated based on the movement in credit spreads for various asset and rating classes in the period June 2007 to March 2008. The potential loss arising from expected changes in market value in the subprime scenario is calculated using extreme risk premiums on various capital market credit products against swap rates. The risk positions are limited at portfolio level using the risk ratios obtained from the extended scenario analyses and the VaR procedure.

Current risk situation

As at 31 December 2008, the spread risk of all Liquid Credits positions amounted to €73.1m (confidence level 95%, holding period ten days). The rise on the previous year (€42.9m) therefore reflects the overall change in the portfolio, increased market volatility and simultaneous widening of spreads as well as the further development of the VaR model.

Annual financial statements

Balance sheet

As at 31 December 2008

Assets

		€	€	€	31.12.2007 '000 €
1. Cash reserves					
a) Cash on hand			68.244,15		**50**
b) Balances with central banks			1.390.000.839,20		**772.658**
of which: with Deutsche Bundesbank	1.390.000.839,20 Euro			**1.390.069.083,35**	(772.658)
2. Due from banks					
a) due on demand			8.448.982.245,69		**6.138.806**
b) other claims			42.828.131.928,67	**51.277.114.174,36**	**47.700.965**
3. Due from customers				**28.196.123.618,53**	**23.162.598**
of which: secured by mortgages	358.611.470,10 Euro				(386.874)
Public sector loans	7.601.614.017,51 Euro				(7.980.724)
4. Bonds and other fixed-interest securities					
a) Money market securities					
aa) from public sector issuers		901.267.900,13			**15.647**
of which: eligible as collateral with Deutsche Bundesbank	901.267.900,13 Euro				(15.647)
ab) from other issuers		1.604.815.455,46	2.506.083.355,59		**34.260**
of which: eligible as collateral with Deutsche Bundesbank	1.552.484.533,80 Euro				(16.331)
b) Bonds and debt securities					
ba) from public sector issuers		6.290.274.850,46			**5.502.783**
of which: eligible as collateral with Deutsche Bundesbank	5.490.232.846,53 Euro				(5.492.327)
bb) from other issuers		27.786.259.015,48	34.076.533.865,94		**19.684.880**
of which: eligible as collateral with Deutsche Bundesbank	22.568.030.670,08 Euro				(15.512.777)
c) own bonds			2.368.581.860,41	**38.951.199.081,94**	**2.253.656**
Nominal amount	2.433.375.394,00 Euro				(2.194.032)
5. Shares and other non fixed-interest securities				**10.290.461.715,23**	**6.799.147**
6. Equity investments				**96.582.447,24**	**112.920**
of which: in banks	2.789.404,99 Euro				(27.450)
7. Shares in affiliated companies				**408.112.665,28**	**384.154**
of which: in banks	69.175.333,01 Euro				(69.140)
in financial services providers	11.687.450,00 Euro				(26.800)
8. Trust assets				**72.041.945,85**	**41.253**
9. Intangible assets				**9.775.559,00**	**9.878**
10. Tangible assets				**25.219.511,66**	**14.765**
11. Other assets				**11.327.104.972,88**	**2.061.422**
12. Prepaid expenses and accrued income				**168.805.061,24**	**193.299**
Total assets				**142.212.609.836,56**	**114.883.141**

Liabilities

				31.12.2007
	€	€	€	'000 €
1. Due to banks				
a) due on demand		6,411,378,395.03		**4,974,894**
b) with agreed maturity or period of notice		35,062,865,469.71	**41,474,243,864.74**	**26,631,784**
2. Due to customers				
Other liabilities				
a) due on demand		16,248,438,090.60		**4,118,110**
b) with agreed maturity or period of notice		19,637,828,953.76	**35,886,267,044.36**	**31,598,563**
3. Securitised liabilities				
a) bonds issued		39,712,507,620.26		**36,731,386**
b) other securitised liabilities		501,296,475.21	**40,213,804,095.47**	**378,934**
4. Trust liabilities			**72,041,945.98**	**41,253**
5. Other liabilities			**19,257,258,873.19**	**5,681,448**
6. Accruals and deferred income			**120,061,515.19**	**63,166**
7. Provisions				
a) provisions for pensions and similar obligations		232,551,821.43		**217,449**
b) provisions for taxes		93,161,737.49		**164,527**
c) other provisions		754,309,295.52	**1,080,022,854.44**	**509,218**
8. Subordinated liabilities			**975,440,175.21**	**975,565**
9. Profit participation capital			**153,000,000.00**	**214,457**
of which:				
due in less than two years	0.00 Euro			(61,457)
10. Fund for general banking risks			**1,553,684,648.73**	**1,156,356**
11. Equity				
a) Subscribed capital				
aa) subscribed capital	286,323,453.46			**286,323**
ab) silent capital contributions	808,006,397.62	1,094,329,851.08		**808,006**
b) Capital reserves		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	63,172,826.52	114,456,424.79		**62,420**
d) Accumulated profit		28,632,345.35	**1,426,784,819.25**	**28,632**
Total liabilities			**142,212,609,836.56**	**114,883,141**
1. Contingent liabilities				
Liabilities from guarantees and warranty agreements			**3,129,509,363.84**	**4,186,786**
2. Other liabilities				
Irrevocable lending commitments			**4,986,297,573.24**	**8,344,366**

Income statement

For the period from 1 January to 31 December 2008

Expenses and income

		€	€	€	2008 €	2007 '000 €
1.	**Interest income from**					
	a) Lending and money market transactions		4.596.081.612,31			3.435.882
	b) Fixed-income securities and debt register claims		1.370.102.669,11	5.966.184.281,42		969.570
2.	**Interest expenses**			5.838.939.735,66	127.244.545,76	4.800.631
3.	**Current income from**					
	a) Shares and other non fixed-interest securities			782.900.506,86		642.512
	b) Equity investments			3.096.859,85		2.809
	c) Shares in affiliated companies			515.450.797,25	1.301.448.163,96	214.006
4.	**Income from profit pooling, profit transfer and partial profit transfer agreements**				100.788.579,30	87.449
5.	**Commission income**			1.062.455.327,39		957.712
6.	**Commission expenses**			777.044.229,90	285.411.097,49	744.618
7.	**Net profit from financial transactions**				19.519.732,96	-45.436
8.	**Other operating income**				293.562.798,14	248.732
9.	**General administrative expenses**					
	a) Personnel expenses					
	aa) Wages and salaries		187.997.732,50			170.295
	ab) Social security contributions and expenses for pensions and other employee benefits		44.625.584,56	232.623.317,06		42.212
	of which: for retirement pensions	23.174.600,09				(23.113)
	b) Other administrative expenses			382.856.882,84	615.480.199,90	290.079
10.	**Write-downs and valuation allowances on intangible assets and tangible assets**				9.802.237,45	7.809
11.	**Other operating expenses**				64.903.472,41	35.780
12.	**Write-downs and valuation allowances on claims and certain securities and allocations to provisions for loan losses**				919.140.373,94	0
13.	**Income from write-ups to claims and certain securities and from reversals of provisions for loan losses**				0,00	144.862
14.	**Allocations to the fund for general banking risks**				397.328.678,58	644.274
15.	**Write-downs and valuation allowances on equity investments, shares in affiliates and securities held as fixed assets**				24.051.511,86	0
16.	**Income from write-ups to equity investments, shares in affiliates and securities held as fixed assets**				0,00	192.386
17.	**Expenses due to assumption of losses**				3.647.998,86	4
18.	**Profit or loss on ordinary activities**				93.620.444,61	114.782
19.	**Income taxes**				-15.884.842,31	1.033
20.	**Income transferred under profit pooling, profit transfer or partial profit transfer agreements**				80.119.414,38	80.122
21.	**Net income**				29.385.872,54	33.627
22.	**Transfers to retained earnings**					
	a) to other retained earnings				753.527,19	4.995
23.	**Accumulated profit**				28.632.345,35	28.632

Notes

General information

[1] Preparation of the annual financial statements

The annual financial statements of DekaBank Deutsche Girozentrale for the year ended 31 December 2008 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).

[2] Accounting and valuation methods

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 has been carried out in line with the requirement to reinstate original values in accordance with Section 280 (1) 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.

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 have been deducted from the respective asset items.

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

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

Against the backdrop of the financial market crisis and resultant inactive markets, as well as the at times considerable liquidity spread developments, an increasing number of securities were identified as having external prices which were categorised as inactive (illiquid). For these securities, the fair value was determined as at the reporting dated based on a modified discounted cash flow model. The underlying discounting rate used in the model was determined on the basis of the current swap curve, the implied historical spread – derived from the last available liquid market price – and an adjustment for any changes in the credit rating in the meantime. The value thus calculated was also adjusted by a factor, determined using an indicator model, that reflects how the last observable market price would have had to change in the meantime (liquidity factor). In our opinion, the resultant fair value represents the price which market players acting rationally would have agreed.

As a result of the persistent market dislocations, the fair values for non-synthetic securitisations as at the reporting date were calculated using the discounted cash flow method. Where the spreads currently observable for the relevant transaction were deemed to be valid, the market interest rate was used as the input for the discounted cash flow model. Otherwise the modified discounted cash flow model described above was used. Where indicative prices from price service agencies were also available, these were used to check the plausibility of the calculated fair values.

The fair value of synthetic securitisation transactions is determined using Copula models calibrated to the market prices of liquid tranches.

In connection with the company pension plan, restricted securities and securities portfolios intended to be kept long term and for use in business operations on a permanent basis, were treated as fixed assets and valued according to the diluted lower of cost or market principle.

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 (2a) of the Income Tax Act (EStG) are written off over a period of five years in accordance with tax regulations.

Assets and liabilities in foreign currency as well as claims and commitments from foreign exchange transactions were translated and valued according to the regulations contained in Section 340h HGB. The results from the translation of hedged balance sheet items were offset by means of equalisation items. Swap premiums were accrued on a pro rata basis. Provisions were recognised for residual valuation losses per currency; residual valuation gains were not recognised as income.

Derivative financial instruments are valued at actual or calculatory market prices. OTC derivatives are valued using computerised valuation models and stock exchange traded derivative financial instruments are carried at listed market prices.

In principle, balance sheet transactions and derivative financial instruments in the trading book were valued individually on the reporting date. The method used to determine the net result from financial transactions was a risk-adjusted market valuation, which was carried out for the individual portfolios in the trading portfolio. Using this method, in addition to the realisation principle and imparity principle under the German Commercial Code, realisable (unrealisable) gains are also recognised in income. To take account of the principle of caution under the German Commercial Code, a risk mark-down in the form of the value-at-risk (VaR discount) is applied to the market values; this mark-down equates to the sum most probably sufficient to offset potential losses in the defined period.

In principle, claims and commitments arising from interest-based derivative financial instruments not allocated to the trading book were not valued if they actually served to hedge against market price risks. Moreover, macro valuation units were formed from interest-bearing securities in the liquidity reserve and derivatives were entered into to hedge against interest rate risks. The financial instruments in these valuation units were valued individually and valuation gains offset against valuation losses. Valuation losses remaining after this offsetting were expensed as provisions or amortisation, while valuation reserves were not recognised. All other derivative financial instruments not used to hedge against market price risks were valued. For unrealised valuation losses, provisions were recognised for possible losses from pending transactions. Unrealised valuation gains were not recognised as income.

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

Pension provisions were determined on the basis of an expert opinion using the internationally recognised projected unit credit method based on the Heubeck reference tables 2005 G.

Pension contributions to the fund-based company pension plan were invested in fund units and term life assurance. If the price of the fund units exceeds the contractually agreed minimum benefit when pension payments begin, the beneficiaries are entitled to the higher price of the underlying fund units and if applicable, the benefits under the term life assurance.

Pension provisions for the fund-based company pension plan result from the highest amount reported for the corresponding fund units and the present value of the pension commitments based on an expert actuarial opinion.

Since 2008, employees of the DekaBank Group have also had the option of paying into working hours accounts. The payments as well as a flat-rate amount for future social security contributions and collective wage agreement payments by the employer are invested in fund units. At present, the future performance of the accounts is linked exclusively to the performance of the fund units. For this reason, no actuarial valuation is carried out. The provision is stated at the book value of the associated fund units.

Provisions for taxes and other provisions were recognised in the amounts required under reasonable commercial judgement.

[3] Statement of subsidiaries and equity investments in accordance with Section 285 No. 11 HGB

Name, location	Equity interest in %	Equity[1)] €'000	Result[2)] €'000
Shares in affiliated companies			
DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg	100.00	487,887.2	331,812.0
Deka Investment GmbH, Frankfurt/Main	100.00	60,225.9	60,552.6[3)]
WestInvest Gesellschaft für Investmentfonds mbH, Düsseldorf	99.74	11,000.0	6,867.3[3)]
Deka International (Ireland) Ltd., Dublin	100.00	30,822.2	12,114.4
Deka(Swiss) Privatbank AG, Zurich	80.00	36,300.1	9,609.0
Deka FundMaster Investment GmbH, Frankfurt/Main	100.00	16,171.3	1,085.4[3)]
Deka Grundstücksverwaltungsgesellschaft I (GbR), Frankfurt/Main	100.00	19,622.7	9,481.3
Deka Immobilien Investment GmbH, Frankfurt/Main	100.00	30,225.9	33,133.3[3)]
WIV GmbH & Co. Beteiligungs KG, Frankfurt/Main	94.90	14,494.4	906.6
Deutsche Landesbankenzentrale AG, Berlin	100.00	1,375.3	15.2
Deka Beteiligungsgesellschaft mbH, Frankfurt/Main	100.00	301.6	647.6
LBG Leasing Beteiligungs-GmbH, Frankfurt/Main	100.00	30.9	0.4
Deka Treuhand GmbH, Frankfurt/Main	100.00	50.1	11.8
Deka Vorratsgesellschaft 01 mbH, Frankfurt/Main	100.00	25.0	-0.4[3)]
Deka Vorratsgesellschaft 02 mbH, Frankfurt/Main	100.00	25.0	-0.4[3)]
ETFlab Investment GmbH, Munich	100.00	10.0	-3,647.2[3)]
Deka Vermögensverwaltungs GmbH, Frankfurt/Main	100.00	63.4	0.5
WIV Verwaltungs GmbH, Mainz	94.90	43.5	3.7
Deka Verwaltungs GmbH, Frankfurt/Main	100.00	26.7	-1.9
STIER Immobilien AG, Frankfurt/Main	100.00	49.8	-0.2
Deka Immobilien GmbH, Frankfurt/Main	100.00	12,283.3	-19,798.3
Deka Real Estate Lending k.k., Tokyo	100.00	3,963.8	-
DKC Deka Kommunal Consult GmbH, Düsseldorf	100.00	203.2	-552.4
DekaBank Advisory Limited, London	100.00	47.2	-
Dealis Fund Operations S.A., Luxembourg	49.90	125.0	-
Deka Investors Investment AG, Frankfurt/Main	100.00	300.0	-

Name, location	Equity interest in %	Equity[1)] €'000	Result[2)] €'000
Equity investments			
Deka-Neuburger Institut für wirtschaftsmathematische Beratung GmbH, Frankfurt/Main	50.00	27.4	7.2
Global Format GmbH & Co. KG, Munich	20.00	1,442.8	-194.7
Sparkassen-PensionsManagement GmbH, Cologne	50.00	121,283.2	-1,678.5
S Broker AG & Co. KG, Wiesbaden	30.64	38,832.5	-6,675.5
Dealis Fund Operations GmbH, Munich	49.90	100.0	-
Indirect equity investments			
Deka International S.A., Luxembourg	100.00	151,779.5	89,201.9
Datogon S.A., Luxembourg	100.00	32.6	1.6
International Fund Management S.A., Luxembourg	100.00	44,812.4	38,721.2
Europäisches Kommunalinstitut S.A.R.L., Luxembourg	100.00	15.5	0.4
Deka Immobilien k.k., Tokyo	100.00	580.0	-
Deka Immobilien Luxembourg S.A., Luxembourg	100.00	127.5	-2.5
S Broker Management AG, Wiesbaden	30.64	43.4	-6.6
WestInvest Erste Beteiligungs- und Verwaltungs GmbH, Frankfurt/Main	100.00	83.9	4.8
Sparkassen Pensionsfonds AG, Cologne	50.00	10,131.2	-1,078.0
Sparkassen Pensionskasse AG, Cologne	50.00	49,094.2	909.8
Deka-WestLB Asset Management Luxembourg S.A., Luxembourg	51.00	1,001.0	20.1
Perfeus S.A., Luxembourg	100.00	38.9	7.9
Roturo S.A., Luxembourg	100.00	2,931.9	109,943.0
Sparkassen PensionsBeratung GmbH, Cologne	50.00	100.0	-
Heubeck AG, Cologne	25.00	4,798.0	612.2
Compendata Ges. zur Verwaltung v. Vorsorgeeinrichtungen mbH, Cologne	25.00	69.7	41.6
Heubeck Richttafeln GmbH, Cologne	25.00	48.2	70.5
Richttafeln-Unterstützungskasse GmbH, Cologne	25.00	64.0	0.0
Dr. Heubeck Ges. mbH, Vienna	25.00	19.9	0.1

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

Off-balance sheet contingent liabilities

[4] Letter of comfort

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

[5] Other financial commitments

There are contribution commitments amounting to €3m with regard to companies in which the Bank has invested (previous year: €3m).

There is an obligation to put up additional capital amounting to €21m for Liquiditäts-Konsortialbank GmbH, Frankfurt/Main (previous year: €21m).

There is an obligation to put up additional capital amounting to €10m for Deka-S-PropertyFund No.1 Beteiligungs GmbH & Co. KG, Frankfurt/Main as well as an additional capital amount of €5m for HELICON Verwaltungsgesellschaft mbH & Co. Immobilien KG, Pullach.

There is an additional funding obligation for the security reserve of the *Landesbanken* and central savings banks of €125m.

DekaBank is participating in the concerted action by the Federal Republic of Germany, the Bundesbank and a syndicate of renowned German banks and insurance companies comprising a total volume of €50bn to support the Hypo Real Estate Bank AG Group (HRE). Under this initiative, DekaBank has taken on state guaranteed bonds as well as collateralised bonds with a total volume of €1.2bn. As security for the support measures, HRE has provided collateral of €60bn in total. In addition, holdings in the operating subsidiary banks have been pledged.

Notes to the balance sheet

[6] Due from banks

	2008 €m	2007 €m
This item includes: **Loans to**		
affiliated companies	621	82
companies in which an interest is held	2,104	8,961
Subordinated loans	-	-
Sub item b (other receivables) breaks down according to residual term to maturity as follows:		
less than three months	13,144	18,556
from three months to one year	5,619	6,569
from one year to five years	13,068	12,600
more than five years	10,997	9,976
	42,828	**47,701**
Used as cover funds	**18,731**	**21,177**

[7] Due from customers

	2008 €m	2007 €m
This item includes: **Loans to**		
affiliated companies	117	143
companies in which an interest is held	65	82
Subordinated loans	0	0
This item breaks down by residual term to maturity as follows:		
with indefinite term to maturity	2,292	1,791
less than three months	4,860	6,266
from three months to one year	1,916	1,270
from one year to five years	10,282	7,574
more than five years	8,846	6,261
	28,196	**23,162**
Used as cover funds	**6,542**	**7,350**

[8] Bonds and other fixed-interest securities

	2008 €m	2007 €m
The marketable securities comprising this item include:		
Listed	35,565	25,400
Unlisted	3,386	2,022
Subordinated securities	**103**	**48**
Due within one year	**11,732**	**9,155**
Used as cover funds	**1,921**	**772**

In 2008, securities in the liquidity reserve were reclassified as "securities held as fixed assets". The Bank intends to keep these securities long term. The portfolio was valued according to the diluted lower of cost or market principle, as the current fluctuations in value cannot be seen as permanent and full repayment on maturity is expected.

As at the reporting date, the bonds and other fixed-interest securities stated in the balance sheet were stated in the balance sheet with a book value totalling €6,729m in accordance with the diluted lower of market or cost principle. The fair value of these portfolios amounts to €6,706m.

[9] Shares and other non-fixed interest securities

	2008 €m	2007 €m
The marketable securities comprising this item include:		
Listed	3,581	1,705
Unlisted	3,614	2,722
Subordinated securities	**12**	**17**

As at the reporting date, this item includes fund units treated as fixed assets with a book value of €213m. These units are restricted as part of the company pension. Consequently, these are long-term investments and the fluctuations in value cannot be seen as permanent. The fair value of these units amounts to €206m.

[10] Equity investments

As in 2007, this item does not include any marketable securities.

[11] Shares in affiliated companies

As in 2007, this item does not include any marketable securities.

[12] Trust assets

The reported trust assets comprise amounts due from banks of €67m and amounts due from customers of €5m.

[13] Fixed assets

Changes in fixed assets of DekaBank in financial year 2008 were as follows:

Assets in €'000	**Cost of acquisition/ production**	**Additions**	**Disposals**	**Reclassi-fications**	**Accumu-lated de-preciation/a morti-sation**	**Deprecia-tion/amor-tisation for the year**	**Book value**	
							31.12.2008	**31.12.2007**
Equity investments	153,854	8,622	300	0	65,594	24,660	96,582	112,921
Shares in affiliated companies	404,154	23,959	0	0	20,000	0	408,113	384,154
Securities held as fixed assets	20,457	6,987,965	66,222	0	28	0	6,942,172	20,429
Total financial assets	**578,465**	**7,020,546**	**66,522**	**0**	**85,622**	**24,660**	**7,446,867**	**517,504**
Intangible assets	50,966	6,358	0	1,705	49,254	6,461	9,775	8,173
Prepayments made on intangible assets	1,705	0	0	-1,705	0	0	0	1,705
Total intangible assets	**52,671**	**6,358**	**0**	**0**	**49,254**	**6,461**	**9,775**	**9,878**
Tangible assets								
Land and buildings including buildings on third party land	6,300	0	0	0	3,249	71	3,051	3,122
of which: used for the Bank's business activities							(3,050)	(3,122)
Office equipment	44,792	13,290	1,192	301	35,022	2,637	22,169	11,342
Prepayments made and investments	301	0	0	-301	0	0	0	301
Total tangible assets	**51,393**	**13,290**	**1,192**	**0**	**38,271**	**2,708**	**25,220**	**14,765**
Total fixed assets	**682,529**	**7,040,194**	**67,714**	**0**	**173,147**	**33,829**	**7,481,862**	**542,147**

[14] Other assets

This item includes:	2008 €m	2007 €m
Premiums paid and margins for derivative financial instruments	8,420	1,280
Equalisation items for FFV valuation (trading book) including VaR discount	2,659	333
Tax refund claims	125	191
Due from custodial account holders	12	13
Corporation tax, capital gains tax and solidarity surcharge refunds	8	21
Due from securities lending	-	109
Leasing assets	-	10

[15] Prepaid expenses and accrued income

This item includes:	2008 €m	2007 €m
Premium/discount from underwriting and lending business	126	167

[16] Additional information relating to assets

	2008 €m	2007 €m
Assets in foreign currency	17,439	7,519
Book value of assets sold under repurchase agreement	10,444	6,384

[17] Due to banks

	2008 €m	2007 €m
This item includes:		
Liabilities to		
affiliated companies	5,281	1,704
companies in which an interest is held	2,303	3,132
Sub item b (with agreed maturity or period of notice) breaks down by residual term to maturity as follows:		
less than three months	23,861	16,156
from three months to one year	5,733	3,217
from one year to five years	3,473	4,890
more than five years	1,996	2,369
	35,063	**26,632**

[18] Due to customers

	2008 €m	2007 €m
This item includes:		
Liabilities to		
affiliated companies	374	217
companies in which an interest is held	33	40
Sub item b (with agreed maturity or period of notice) breaks down by residual term to maturity as follows:		
less than three months	4,502	14,890
from three months to one year	1,526	1,655
from one year to five years	5,822	4,703
more than five years	7,788	10,350
	19,638	**31,598**

[19] Securitised liabilities

	2008 €m	2007 €m
Proportion of sub item a (issued bonds) maturing in the following year	**5,712**	**4,194**
Sub item b (other securities liabilities) breaks down by residual term to maturity as follows:		
less than three months	65	301
from three months to one year	436	78
	501	**379**

[20] Trust liabilities

Trust liabilities comprise €71m in amounts due to banks and €1m in amounts due to customers.

[21] Other liabilities

	2008 €m	2007 €m
This item includes:		
Premiums received and margins for derivative financial instruments	16,407	2,582
Short sales of securities	1,693	2,263
Securities lending	772	455
Foreign exchange equalisation items	101	87
Bonuses for sales offices	86	96
Trade payables	59	33
Due to custodial customers	19	45
Interest on participating certificates	10	15

[22] Accruals and deferred income

	2008 €m	2007 €m
This item includes:		
Premiums/discounts from underwriting and lending business	64	29
Accruals and deferred income derivative financial instruments	56	21
Liabilities from leasing business	-	2

[23] Subordinated liabilities

	2008 €m	2007 €m
Expenses from subordinated liabilities	49	47
Accrued interest on subordinated liabilities	20	21

Borrowings structured as follows:	Currency	Amount m	Interest rate	Matures on
Bond	EUR	190	6-M-Euribor	09.06.2010
Bond	EUR	40	6-M-Euribor	09.06.2010
Bond	EUR	300	5.38%	31.01.2014
Bond	EUR	300	4.63%	21.12.2015
Promissory note loans	EUR	85	6.15 – 6.46%	18.05.2012
Promissory note loans	EUR	40	4.43%	11.04.2016

The subordinated liabilities comply with the requirements of Section 10 (5a) of the German Banking Act (KWG). The conversion of these funds into capital or any other form of debt has not been agreed or planned. DekaBank has no obligation to make an early repayment.

[24] Equity

	2008 €m	2007 €m
Subscribed capital	286	286
Typical silent capital contributions	756	756
Atypical silent capital contributions	52	52

Unrealised reserves in securities and equity interests amounting to €97m were allocated to the regulatory liable equity in accordance with Section 10 (2b) sentence 1 No. 7 of the German Banking Act (KWG).

[25] Additional information relating to liabilities

	2008 €m	2007 €m
Foreign currency liabilities	8,628	6,288

[26] Calculation of cover for mortgage and public sector lending business

Mortgage Pfandbriefe

Total amounts by nominal value and present value

	Nominal value		Present value		Risk-adjusted present value + 250 BP		Risk-adjusted present value - 250 BP	
	2008 €m	2007 €m	2008 €m	2007 €m	2008 €m	2007 €m	2008 €m	2007 €m
Outstanding mortgage Pfandbriefe	60	60	60	59	59	57	62	61
Cover funds mortgage Pfandbriefe	96	139	100	140	95	135	107	146
Cover surplus/shortfall	36	79	40	81	36	78	45	85

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

Maturity structure

Maturity ranges	Less than 1 yr		From 1 to 5 yrs		From 5 to 10 yrs		More than 10 yrs		Total	
	2008 €m	2007 €m	2008 €m	2007 €m	2008 €m	2007 €m	2008 €m	2007 €m	2008 €m	2007 €m
Outstanding mortgage Pfandbriefe	60	0	0	60	0	0	0	0	60	60
Cover funds mortgage Pfandbriefe	0	7	47	57	33	59	16	16	96	139

Composition of cover funds by country

Total amounts	Less than 0.3 m		From 0.3 m to 5 m		More than 5 m		Other cover		Total	
	2008 €m	2007 €m	2008 €m	2007 €m	2008 €m	2007 €m	2008 €m	2007 €m	2008 €m	2007 €m
Federal Republic of Germany	0	0	0	0	87	132	9	7	**96**	**139**
Total	**0**	**0**	**0**	**0**	**87**	**132**	**9**	**7**	**96**	**139**

Composition of cover funds by type of use		
Federal Republic of Germany	**2008 €m**	**2007 €m**
Commercial use	87	132
Residential use	0	0
Other cover	9	7
Total	**96**	**139**

Composition of cover funds by type of building		
Federal Republic of Germany	**2008 €m**	**2007 €m**
Office buildings	46	84
Retail buildings	25	32
Industrial buildings	16	16
Other cover	9	7
Total	**96**	**139**

As in 2007, there were no claims in the cover funds which were in arrears by more than 90 days as at the reporting date.

Composition of total amount of mortgage repayments during the financial year		
	2008 €m	**2007 €m**
Repayment through redemption	1	30
Other repayment	7	0
Total	**8**	**30**

As in 2007, there were no foreclosure sales or forced administration procedures at the year-end.

As in the previous year, no foreclosure sales were carried out in financial year 2008.

As in 2007, the Bank did not have to take over any property to prevent losses on mortgages.

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

Public sector Pfandbriefe

Total amounts by nominal value and present value

	Nominal value		Present value		Risk-adjusted present value + 250 BP		Risk-adjusted present value - 250 BP	
	2008 €m	2007 €m	2008 €m	2007 €m	2008 €m	2007 €m	2008 €m	2007 €m
Outstanding public sector Pfandbriefe	24,128	25,895	25,306	26,161	23,915	24,618	27,025	28,036
Cover funds public sector Pfandbriefe	27,097	29,160	28,486	29,604	26,796	27,853	30,519	31,677
Cover surplus/shortfall	2,969	3,265	3,180	3,443	2,881	3,235	3,494	3,641

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

Maturity structure

Maturity ranges	Less than 1 yr		From 1 to 5 yrs		From 5 to 10 yrs		More than 10 yrs		Total	
	2008 €m	2007 €m	2008 €m	2007 €m	2008 €m	2007 €m	2008 €m	2007 €m	2008 €m	2007 €m
Outstanding public sector Pfandbriefe	4,783	3,830	14,343	13,470	3,552	6,699	1,450	1,896	24,128	25,895
Cover fund public sector Pfandbriefe	4,181	3,615	12,422	12,922	8,865	10,420	1,629	2,203	27,097	29,160

Distribution of cover funds

The distribution is as follows for financial year 2008:

	Government		Regional authorities		Local authorities		Other debtors		Total
	Nominal value €m	**Guarantor* €m**	**Nominal value €m**	**Guarantor* €m**	**Nominal value €m**	**Guarantor* €m**	**Nominal value €m**	**Guarantor* €m**	**€m**
Federal Republic of Germany	331		3,833		1,030		19,813 1,050 33	 1) 2)	26,090
Greece	50		0		0		0		50
Turkey	7	3)	0		0		0		7
Hungary	0		0		3		0		3
Spain	0		10		0		238	4)	248
Finland	0		0		54		2	5)	56
Sweden	0		0		0		6	6)	6
Latvia	0		0		47		0		47
Cayman Islands	0		0		0		58 5	7) 3)	63
UK	0		0		0		200		200
Bulgaria	0		0		0		12	3)	12
France	0		0		0		10	7)	10
USA (incl. Puerto Rico)	0		0		0		15	3)	15
Netherlands	0		0		0		200		200
Cyprus	0		0		0		7	7)	7
Tunisia	0		0		0		6	7)	6
Croatia	0		0		0		2	7)	2
Poland	75		0		0		0		75
Total	**463**		**3,843**		**1,134**		**21,657**		**27,097**

*If there is a guarantor, type and location are indicated to the right of the 100 % guaranteed amount. If there is no guarantor, this entry remains blank.

1) Reg. authorities, Germany
2) Local authorities, Germany
3) Government, USA
4) Regional authorities, Spain
5) Local authorities, Finland
6) Local authorities, Sweden
7) Government, Germany

The figures for the previous year are as follows:

	Government		Regional authorities		Local authorities		Other debtors		Total
	Nominal value €m	Guarantor* €m	Nominal value €m	Guarantor* €m	Nominal value €m	Guarantor* €m	Nominal value €m	Guarantor* €m	€m
Federal Republic of Germany	473		3,933		1,215		21,654		28,435
							1,105	1)	
							55	2)	
Greece	50		0		0		0		50
Turkey	10	3)	0		0		0		10
Hungary	15		0		4		15	4)	34
Spain	0		10		0		254	5)	264
Finland	0		0		61		2	6)	63
Sweden	0		0		55		6	7)	61
Latvia	0		0		45		0		45
Cayman Islands	0		0		0		86	8)	93
							7	3)	
Bulgaria	0		0		0		18	3)	18
France	0		0		0		16	8)	16
European Investment Bank (EIB)	0		0		0		31		31
USA (incl. Puerto Rico)	0		0		0		17	3)	17
Belgium	0		0		0		0		0
Cyprus	0		0		0		9	8)	9
Bermuda	0		0		0		4	3)	4
Tunisia	0		0		0		7	8)	7
Chile	0		0		0		0		0
Croatia	0		0		0		2	8)	2
Russia	0		0		0		1	3)	1
Poland	0		0		0		0		0
Total	**548**		**3,943**		**1,380**		**23,289**		**29,160**

*If there is a guarantor, type and location are indicated to the right of the 100 % guaranteed amount. If there is no guarantor, this entry remains blank.

1) Regional authorities, Germany
2) Local authorities, Germany
3) Government, USA
4) Government, Hungary
5) Regional authorities, Spain
6) Local authorities, Finland
7) Local authorities, Sweden
8) Government, Germany

As in 2007, there were no claims in the cover funds that were in arrears by more than 90 days as at the reporting date.

Notes to the income statement

[27] Write-downs and valuation allowances on intangible assets and tangible assets

Of the amount stated, €1m (previous year: €2m) related to leasing business.

[28] Other operating income

Other operating income consisted mainly of €216m from intercompany offsetting, €10m from the reversal of provisions and €27m from leasing business.

[29] Audit fee

The following audit fees were charged as expenses in the reporting year:

	2008 €'000	**2007 €'000**
Professional fees for:		
– Year-end audit	1,600	1,286
– Other auditing or valuation services	178	664
– Tax consulting services	108	23
– Other services	374	274
	2,260	**2,247**

[30] Off-balance sheet transactions

As at the reporting date, outstanding forward transactions (Section 36 RechKredV) are broken down as follows.

Derivative transactions - volume	Nominal values		Full fair values positive market values	Full fair values negative market values
	31.12.2008 €m	31.12.2007 €m	31.12.2008 €'000	31.12.2008 €'000
Interest rate risks				
Interest rate swaps	525,015.2	285,043.3	5,207,580	5,430,714
Forward rate agreements	56,267.5	1,325.0	46,140	36,771
Interest rate options				
Purchases	332.6	260.0	3,394	305
Sales	546.1	264.6	—	13,089
Caps, floors	—	—	—	—
Stock market contracts	10,356.1	4,757.2	5,414	8,145
Other interest rate forward transactions	53.0	24.3	8,691	39,411
Total	**592,570.5**	**291,674.4**	**5,271,219**	**5,528,435**
Currency risks				
Forward exchange transactions	17,562.8	9,289.4	631,024	426,409
Currency swaps, interest rate currency swaps	9,290.8	2,406.0	314,041	474,188
Currency options				
Purchases	—	—	—	—
Sales	—	—	—	—
Total	**26,853.6**	**11,695.4**	**945,065**	**900,597**
Share and other price risks				
Equity forward transactions	3,658.5	4,468.4	86,975	625,134
Share options				
Purchases	7,995.5	5,733.9	2,948,990	—
Sales	5,903.9	4,586.6	—	4,076,127
Stock market contracts	74,364.3	10,423.1	5,972,388	12,602,740
Other forward transactions	17,953.9	3,966.7	724,175	386,826
Total	**109,876.1**	**29,178.7**	**9,732,528**	**17,690,827**
Overall total	**729,300.2**	**332,548.5**	**15,948,812**	**24,119,859**

Derivative transactions – classification by maturities (nominal values)

	Interest rate risks		Currency risks		Share and other price risks	
	31.12.2008 €m	31.12.2007 €m	31.12.2008 €m	31.12.2007 €m	31.12.2008 €m	31.12.2007 €m
Residual term to maturity						
less than 3 months	277,687.8	99,166.7	13,101.2	7,224.0	11,911.0	6,919.0
from 3 months to 1 year	118,514.5	57,829.6	4,720.9	2,735.1	11,313.8	10,215.5
from 1 year to 5 years	119,864.1	74,564.8	5,547.5	935.0	74,976.4	10,855.9
more than 5 years	76,504.1	60,113.3	3,484.0	801.3	11,674.9	1,188.3
Total	**592,570.5**	**291,674.4**	**26,853.6**	**11,695.4**	**109,876.1**	**29,178.7**

Derivative transactions – classification by counterparties

	Nominal values		Full fair values positive market values	Full fair values negative market values
	31.12.2008 €m	31.12.2007 €m	31.12.2008 €'000	31.12.2008 €'000
Banks in the OECD	617,263.8	290,786.5	7,040,862	6,494,967
Public sector entities in the OECD	3,568.0	4,068.3	52,387	37,532
Other counterparties	108,468.4	37,693.7	8,855,563	17,587,360
Total	**729,300.2**	**332,548.5**	**15,948,812**	**24,119,859**

Derivative transactions – trading book

	Nominal values		Full fair values positive market values	Full fair values negative market values
	31.12.2008 €m	31.12.2007 €m	31.12.2008 €'000	31.12.2008 €'000
Interest rate contracts	481,165.9	180,190.9	3,245,475	3,370,657
Currency contracts	5,758.2	2,041.4	360,732	112,470
Share contracts	106,042.8	25,406.2	9,539,699	17,420,034
Total	**592,966.9**	**207,638.5**	**13,145,906**	**20,903,161**

Other information

[31] Liquidity ratio

Pursuant to Section 11 of the German Banking Act (KWG), banks must invest their funds in such a way as to ensure that adequate solvency is ensured at all times. A ratio calculated in accordance with Liquidity Principle II, which compares the cash available short term with the amounts payable over the same period, serves as the regulatory assessment criterion for solvency. If the ratio of cash to amounts payable has a value of 1 or higher, liquidity is deemed to be assured. As at 31 December 2008, the liquidity ratio of DekaBank stood at 1.4 (previous year: 1.2).

[32] Average number of staff

Number	**2008**	**2007**
Full-time employees	1,948	1,747
Part-time and temporary employees	309	280
	2,257	**2,027**

[33] Remuneration of Board members

	2008 **€**	**2007** **€**
Remuneration of active Board members		
Board of Management	10,436,559.54	7,391,620.26
Administrative Board	650,277.79	744,427.84
Remuneration paid to former Board members and surviving dependants		
Board of Management	2,538,609.43	2,638,983.83
Provisions for pension commitments to these persons	24,703,766.00	28,628,184.00

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

[34] Loans to Board members

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

Seats on supervisory bodies

[35] Notes to seats on supervisory bodies (as at January 2009)

Herr Franz S. Waas, Ph.D. (Chairman of the Board of Management)		
Chairman of the Supervisory Board	Deutsche Landesbankenzentrale	Berlin
Chairman of the Administrative Board	Liquiditäts-Konsortialbank GmbH	Frankfurt/Main
Member of the Advisory Board (until 08.12.2008)	VÖB-Service GmbH	Bonn
Deputy Chairman of the Advisory Board (from 09.12.2008)		

Herr Oliver Behrens (Member of the Board of Management)		
Chairman of the Supervisory Board	Deka Investment GmbH	Frankfurt/Main
Chairman of the Supervisory Board	Deka FundMaster Investmentgesellschaft mbH	Frankfurt/Main
Chairman of the Administrative Board	Deka International (Ireland) Ltd.	Dublin, Ireland
Chairman of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Chairman of the Administrative Board	Deka(Swiss) Privatbank AG	Zurich, Switzerland
Deputy Chairman of the Supervisory Board	Sparkassen-PensionsManagement GmbH	Cologne
Chairman of the Supervisory Board	Sparkassen Pensionsfonds AG	Cologne
Deputy Chairman of the Supervisory Board	Sparkassen Pensionskasse AG	Cologne
Deputy Chairman of the Supervisory Board	Sparkassen PensionsBeratungs GmbH	Cologne
Member of the Shareholder Committee (from 18.12.2008)	Dealis Fund Operations GmbH	Munich

Dr. Matthias Danne (Member of the Board of Management)		
Chairman of the Supervisory Board	Deka Immobilien Investment GmbH	Frankfurt/Main
Chairman of the Supervisory Board	WestInvest Gesellschaft für Investmentfonds mbH	Düsseldorf
Chairman of the Supervisory Board	Deka Immobilien GmbH	Frankfurt/Main
Chairman of the Supervisory Board	STIER Immobilien AG	Frankfurt/Main
Member of the Supervisory Board (until 14.01.2008)	ETFlab Investment GmbH	Munich
Deputy Chairman of the Supervisory Board (from 15.01.2008 to 29.06.2008)		

Walter Groll (Member of the Board of Management)		
Member of the Supervisory Board (until 14.01.2008) Chairman of the Supervisory Board (from 15.01.2008)	ETFlab Investment GmbH	Munich
Deputy Chairman of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Deputy Chairman of the Administrative Board	Deka International (Ireland) Ltd.	Dublin, Ireland

Hans-Jürgen Gutenberger (Member of the Board of Management)		
Deputy Chairman of the Supervisory Board	Deka Immobilien GmbH	Frankfurt/Main
Deputy Chairman of the Supervisory Board	Deka FundMaster Investmentgesellschaft mbH	Frankfurt/Main
Deputy Chairman of the Supervisory Board	S Broker AG & Co. KG	Wiesbaden
Deputy Chairman of the Supervisory Board	S Broker Management AG	Wiesbaden
Deputy Chairman of the Supervisory Board (until 29.06.2008)	Deka Investment GmbH	Frankfurt/Main
Deputy Chairman of the Supervisory Board (until 29.06.2008)	Deka Immobilien Investment GmbH	Frankfurt/Main
Deputy Chairman of the Supervisory Board (until 29.06.2008)	WestInvest Gesellschaft für Investmentfonds mbH	Düsseldorf
Member of the Supervisory Board	Sparkassen-PensionsManagement GmbH	Cologne
Member of the Supervisory Board	Sparkassen Pensionsfonds AG	Cologne
Member of the Supervisory Board	Sparkassen Pensionskasse AG	Cologne
Member of the Supervisory Board	Sparkassen PensionsBeratungs GmbH	Cologne
Member of the Administrative Board	Deka(Swiss) Privatbank AG	Zurich, Switzerland
Member of the Supervisory Board	Deutsche Landesbankenzentrale AG	Berlin

Herr Dr. h. c. Friedrich Oelrich (Member of the Board of Management)		
Deputy Chairman of the Supervisory Board	Deutsche Landesbankenzentrale AG	Berlin
Member of the Supervisory Board (until 31.08.2008) Deputy Chairman of the Supervisory Board (from 01.09.2008)	Deka Immobilien Investment GmbH	Frankfurt/Main
Member of the Supervisory Board (until 31.08.2008) Deputy Chairman of the Supervisory Board (from 01.09.2008)	WestInvest Gesellschaft für Investmentfonds mbH	Düsseldorf
Member of the Supervisory Board	Deka Immobilien GmbH	Frankfurt/Main
Member of the Administrative Board	DekaBank Deutsche Girozentrale Luxembourg S.A.	Luxembourg
Member of the Supervisory Board	Deka FundMaster Investmentgesellschaft mbH	Frankfurt/Main
Member of the Supervisory Board (until 07.09.2008) Deputy Chairman of the Supervisory Board (from 08.09.2008)	Deka Investment GmbH	Frankfurt/Main
Member of the Administrative Board	Deka International (Ireland) Ltd.	Dublin, Ireland
Member of the Administrative Board	Deka(Swiss) Privatbank AG	Zurich, Switzerland
Member of the Supervisory Board	SIZ Informatikzentrum der Sparkassenorganisation GmbH	Bonn
Member of the Supervisory Board	Sparkassen Rating und Risikosysteme GmbH	Berlin
Member of the Supervisory Board (until 02.09.2008) Deputy Chairman of the Supervisory Board (from 03.09.2008)	ETFlab Investment GmbH	Munich
Member of the Shareholders Committee (from 18.12.2008)	Dealis Fund Operations GmbH	Munich

Board members of DekaBank Deutsche Girozentrale

[36] Notes to the Board members of DekaBank Deutsche Girozentrale (as at 31.12.2008)

Board of Management:

Franz S. Waas, Ph.D.
Chairman of the Board of Management

Oliver Behrens
Member of the Board of Management

Dr. Matthias Danne
Member of the Board of Management

Hans-Jürgen Gutenberger
Member of the Board of Management

Walter Groll
Member of the Board of Management

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

Administrative Board:

Heinrich Haasis
Chairman
President of the German Savings
Banks and Giro Association e.V., Berlin

Dr. Rolf Gerlach
First Deputy Chairman
President of the Savings Banks and Giro Association
of Westphalia-Lippe

Dr. Siegfried Jaschinski
Second Deputy Chairman
Chairman of the Management Board of Landesbank Baden-Württemberg

Dr. Stephan Articus
Executive Director of the German Association of Cities

Hans Berger
(until 10.11.2008)
Chairman of the Management Board
of HSH Nordbank AG

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

Hans-Dieter Brenner
(from 01.10.2008)
Chairman of the Management Board
of Landesbank Hessen-Thüringen Girozentrale

Michael Breuer
President of the Rhineland Savings Banks and Giro Association

Thomas Christian Buchbinder
Chairman of the Management Board
of Landesbank Saar

Michael Dörr
(from 09.01.2008)
Chairman of the Staff Committee
of DekaBank Deutsche Girozentrale

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

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

Heinz Hilgert
(from 01.06.2008)
Chairman of the Management Board
of WestLB AG

Jürgen Hilse
Chairman of the Management Board
of Kreissparkasse Göppingen

Dr. Stephan-Andreas Kaulvers
Chairman of the Management Board
of Bremer Landesbank
Kreditanstalt Oldenburg – Girozentrale –

Dr. Michael Kemmer
(from 01.04.2008)
Chairman of the Management Board
of Bayerische Landesbank

Thomas Mang
President of the Savings Banks Association
of Lower Saxony

Harald Menzel
Chairman of the Management Board
of Kreissparkasse Freiberg

Dr. Günther Merl
(until 30.09.2008)
Chairman of the Management Board
of Landesbank Hessen-Thüringen Girozentrale

Dr. Siegfried Naser
Managing President of the
Savings Banks Association Bavaria

Richard Nospers
(from 01.07.2008)
Managing Director of the Saarland Association
of Towns and Municipalities

Harald R. Pfab
(until 30.03.2008)
Member of the Management Board
of Sachsen Bank

Dr. Friedhelm Plogmann
(until 30.06.2008)
Chairman of the Management Board
of LRP Landesbank Rheinland-Pfalz

Dr. Hannes Rehm
(until 31.12.2008)
Chairman of the Management Board
of NORD/LB Norddeutsche Landesbank Girozentrale

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

Roland Schäfer
(until 30.06.2008)
President of the German Association of Towns
and Municipalities and Mayor of the City of
Bergkamen

Heike Schillo
Member of the Staff Committee
of DekaBank Deutsche Girozentrale

Werner Schmidt
(until 29.02.2008)
Chairman of the Management Board
of Bayerische Landesbank

Peter Schneider
President of the Savings Banks Association
Baden-Württemberg

Dr. Friedhelm Steinberg
(until 31.12.2008)
Deputy Chairman of the Management Board
of Hamburger Sparkasse AG

Hans Otto Streuber
President of the Savings Banks and Giro Association
Rhineland-Palatinate

Alexander Stuhlmann
(until 30.04.2008)
Chairman of the Management Board
of WestLB AG

Hans-Jörg Vetter
Chairman of the Management Board
of Landesbank Berlin

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, 23 February 2009

DekaBank
Deutsche Girozentrale

The Board of Management

Waas, Ph.D.	Behrens	Dr. Danne
Groll	Gutenberger	Dr. h.c. Oelrich

Auditor’s report

“We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the DekaBank Deutsche Girozentrale, Berlin/Frankfurt/Main, for the business year from 1 January to 31 December 2008. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of DekaBank's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Frankfurt/Main, 24 February 2009

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Stefan Palm	ppa. Mirko Braun
Wirtschaftsprüfer	Wirtschaftsprüfer
(German public auditor)	(German public auditor)

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

flexible instrument for trading credit risks and hedging portfolios.

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

Euro commercial paper programme (ECPP)
Programme for issuing bearer bonds with terms lasting from a few days to under two years. The maximum term under our programme is 364 days. The bearer bonds are issued by banks and large companies to flexibly cover short-term refinancing requirements. Commercial paper is generally issued as discounted paper. Yields are geared to representative money market interest rates over similar maturities.

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

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

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

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

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

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

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

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

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

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

MaRisk (German minimum requirements for risk management)
Mandatory requirement by the German Federal Financial Supervisory Authority (BaFin) for the risk management practices of German credit institutions. As the supervisory authority concerned with implementing Section 25a Para. 1 of the German Banking Act (KWG), BaFin has established the MaRisk by consolidating, updating and supplementing the applicable minimum requirements existing in the Minimum Requirements for the Trading Activities of Credit Institutions (Mindestanforderungen an das Betreiben von Handelsgeschäften or MaH), the Minimum Requirements for Conducting Internal Audits (Mindestanforderungen an die Ausgestaltung der internen Revision or MaIR) and the Minimum Requirements for Credit Transactions (Mindestanforderungen an das Kreditgeschäft or MaK). MaRisk was published in December 2005 and came into effect on 1 January 2007.

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

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

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

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

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

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

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

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

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

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

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

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

Service KAG
A service KAG is an investment company that, to begin with, concentrates its service provision on the administrative coordination and management of investments, including investment fund accounting, reporting and financial controlling, thus making it possible for an investor to issue mutual and special funds.

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

Subprime loans
Loans to borrowers with a low credit-standing, usually on a mortgage basis. The collateral on subprime loans is of lower quality than standard real estate finance and higher interest rates are charged to offset the increased risk. Accordingly, mortgage bonds backed by subprime loans offer a higher return but also a greater price risk than conventional mortgage bonds.

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

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

Value-at-risk (VaR)
The VaR of a portfolio identifies the possible loss that might arise within a prescribed period (= holding period, for example 10 days) and probability (= confidence level, for example 95%) in the case of presupposed changes in risk factors (e.g. interest rates, currencies and share prices).

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

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

Information on the Internet

The company financial statements are available to download in English and German on the website www.dekabank.de under "Investor Relations/Financial Publications".

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Disclaimer

The management report as well as the Annual Report in other respects contain forward-looking statements as well as expectations and forecasts. These are based on the information available to us at this time, which we have deemed to be reliable after careful consideration. We do not assume an obligation to update based on new information and future events after the publication of this information. We have derived our estimations and conclusions from these forward-looking statements, expectations and forecasts. We expressly point out that all of our future-oriented statements are associated with known or unknown risks or imponderables and are based on conclusions relating to future events, which depend on risks, uncertainties and other factors that are outside of our area of influence. Such developments can result from, among other things, a change in the general economic situation, the competitive situation, the development of the capital markets, changes in the tax law and legal framework as well as the reliability of our procedures and methods for risk management 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 annual financial statements is provided for convenience only. The German version is definitive.

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