Economic report

Economic environment

The environment for asset management was positive overall during the year under review. The robust macroeconomic situation, together with rising corporate profits, bolstered global stock markets and led to positive all-round performance. This, combined with interest losses in real terms on deposit products, prompted German households to give a higher weighting to securities investing in their savings and pension provision. Funds under management in the retail funds segment rose due to both net inflows and rising stock prices, increasing the opportunities for profit in asset management. Given the interest rate situation, savings banks and other institutional investors also went in search of well-designed investment strategies that combine performance with cost-efficient regulatory compliance. This resulted in sustained strong demand for special funds and discretionary mandates within the context of an overall service and advisory approach.

The banking business again faced tough challenges due to the expansionary central bank policy in the eurozone. As in previous years, low market interest rates, low bond yields and a high liquidity supply put pressure on short-term capital markets business and on lending. On the other hand, the low interest rates and narrow spreads led to high level of activity in terms of debt issues by both public bodies and corporates.

Brexit, i.e. the impending exit of the United Kingdom from the European Union, had no material impact on either business or results in Deka's business divisions. Nevertheless, Brexit increases the political risks that can undermine financial market stability and drag down the overall economic situation. The long-term effects on market infrastructure can only be estimated at present. Further developments will therefore be closely watched. Full account of Brexit-related risks is also being taken in risk management, in particular as regards the modelling of stress scenarios.

Macroeconomic conditions

Global growth regained traction in the year under review, after having fallen to 3.2% – the lowest level since the financial crises – in 2016. The 2017 financial year was marked by the low-interest policy of the European Central Bank, continued low inflation rates and the interest rate rises made by the US Federal Reserve. Nevertheless, corporate profits rose and unemployment was brought down in large parts of the world. Thanks to solid exports and increased consumer confidence, overall business and economic performance in the industrialised nations was positive in 2017. Among the emerging markets, China in particular recorded strong economic growth. According to estimates by Deka economists, global gross domestic product grew by 3.7% over the year, following on from growth of 3.2% in 2016.

In the eurozone, low interest rates were among the factors enabling an increasing number of businesses to obtain cheap lending in the capital markets, which in turn helped propel the overall economy forward. Growth in the eurozone continued to rest on sound foundations in the domestic economy. The macroeconomic upswing was noticeable in the labour markets: unemployment in the European Union sank to 8.7% in December, the lowest figure recorded since January 2009. Certain European purchasing managers' indices reached their highest level for several years. Depreciation of the euro relative to the US dollar boosted the European economy up until the final quarter, as the majority of European exports are settled in dollars. By contrast, the rising value of the euro in the final quarter of the year diminished the ability of the eurozone countries to sell in global markets. This weakened the European economy, as higher product prices inhibited exports.

Despite the encouraging economic situation overall, performance in the individual European countries was a mixed bag: whilst Germany recorded GDP growth of 2.2%, GDP rose by only 1.7% in the UK, 1.9% in France, 1.5% in Italy and 1.5% in Greece. Contrary to assumptions, Catalan efforts to achieve independence did not have a negative effect on growth in Spain (3.1%).

The positive performance overall was matched by an improvement in sentiment indicators. A survey conducted by the European Commission found that economic sentiment in the eurozone rose constantly, reaching a level of 115.3 points in December. This was 8.0 points higher than the level a year earlier. Economic sentiment in the eurozone thus stood at its highest level since October 2000.

After a weak start to the year, the US economy also gathered pace somewhat in the second quarter. Full employment was in evidence in the labour markets in 2017 with an unemployment rate of just 4.1%, while corporate capital spending increased. Although economic activity in the US was temporarily hit by Hurricanes Harvey and Irma, the overall development was steady, thanks mainly to good consumer spending.

Purchasing managers' indices in emerging markets rose in the past year, which – along with a falling risk of inflation – supports a picture of stable economic growth. A few factors continue to inhibit the growth rate, however, such as high levels of personal indebtedness and increased reluctance on the part of lenders. In addition, the interest rate rises in the US led to a worsening of borrowing terms in emerging markets too. Heightened tensions with North Korea, meanwhile, largely left no trace on the markets in emerging nations.

In 2017, China recorded positive economic growth and exceeded GDP growth targets, in spite of ongoing structural transformation. The country closed 2017 with GDP growth of 6.9%, which had a positive impact on the entire Asian region. In the other emerging markets, Russia and Brazil largely succeeded in coming out of recession in 2017. Brazil benefited from strong exports as well as increased domestic demand.

Sector-related conditions

Trends in money and capital markets

Securities holdings in the banking system again rose over the course of 2017, as did the surplus reserves of the European Central Bank (ECB). Owing to lower new issues of covered bonds, the ECB was increasingly confronted with the problem of how to realise its desired level of bond purchases. Furthermore, various redemptions fell due in 2017, meaning that the ECB had to reinvest in order to restock its portfolio.

While the US Federal Reserve cautiously maintained its course of raising interest rates, the ECB took the first steps towards a gradual scaling-back of its expansionary monetary policy, notwithstanding continued low inflation. In March 2017, the ECB cut the volume of its bond purchases to €60bn a month. Bond purchases are to be halved to €30bn a month as from January 2018. At the same time, the bond purchase programme has been extended until at least September 2018. A decision on whether to prolong it beyond September has not yet been taken.

Equity markets performed positively, recording substantial gains amid little volatility. They thus proved robust against the political uncertainties caused, among other things, by the French and Dutch elections, the protracted and ultimately fruitless preliminary talks on the "Jamaica" coalition in Germany, the difficult negotiations on the shape of Brexit, and the North Korea crisis.

Thanks to rising corporate profits and positive sentiment indicators, the DAX German equity index rose almost constantly throughout the year, reaching an all-time high of 13,526 points on 7 November 2017. As the euro appreciated, however, the DAX was forced to surrender some of its gains in the final quarter and ended the year just below 13,000 points.

In the UK, uncertainty over Brexit remained high. After the third round of EU negotiations collapsed, the British pound fell to its lowest level against the euro since the financial crisis in 2008/2009. This had an inflationary effect on consumer prices. As the economy meanwhile performed surprisingly well, this led to a raising of the Bank of England's base rate.

During 2017, the Fed continued its gradual retreat from an expansionary monetary policy and raised its base rate by a total of 75 basis points in three stages in March, June and December, to a new spread of 1.25%–1.50%. Owing to reduced inflation forecasts, yields on US Treasury Bonds remained at a low level. In the US, the stimulus expected from a more expansionary fiscal policy outweighed concerns that the Trump administration will adopt a protectionist policy on foreign trade, causing the Dow Jones index to consistently hit new highs.

A tendency towards an easing of monetary policy could be detected in some emerging markets. Emerging markets equities and bonds continued their upward course during 2017.

Trends in property markets

European property markets were again marked by a sustained boom in 2017. Property investments were buoyed by low interest rates and weak inflation. In the investment market, a sustained high level of demand continued to meet with scarce supply, especially in the market for core real estate. Downward pressure on initial yields in Europe therefore continued, as expected.

European rental markets benefited from the ongoing economic upturn and declining unemployment. Increased demand for office space was driven in particular by providers of co-working spaces. In London, demand grew again in the second half of the year, following previous uncertainty in the wake of the Brexit vote. Space shortages occurred in top German markets such as Munich, Berlin and Stuttgart, where vacancy rates were below 4%.

Vacancy rates again declined slightly across Europe. Milan and Warsaw remain among the markets with the highest vacancy rates. In Warsaw, the rental market was weighed down by continued high levels of construction. In Amsterdam, a sharp reduction in supply led to a substantial rise in rents. Growth in rents was also recorded in Barcelona, Lisbon, Madrid, Stockholm and the German locations.

Demand for Class A properties in the US picked up in the last six months of the year after a weak first half. Vacancy rates in the Class A segment were steady nationwide. Although the amount of new construction has risen substantially, it is concentrated in a small number of major cities. Rents predominantly remained stable, with only a few markets recording further growth.

In Asia, demand for commercial property rose in 2017. Increased lettings in Chinese and Indian cities especially played an important role. Vacancy rates developed unevenly. In Australia, demand in the markets for office space was predominantly robust.

Investor attitudes

In the low-interest environment, investors increasingly turned their attention to real estate, bonds, equities and investment funds. In particular, interest in mutual funds investing in securities rose substantially relative to the previous year. Overall, the mutual funds tracked by the German Investment Funds Association (BVI) recorded a total net inflow of €71.8bn in the period from January to December 2017, compared with €6.5bn the previous year. Having been in negative territory in the previous year, equity and bond funds recorded net inflows of €18.2bn and €20.7bn respectively. The highest growth was recorded by mixed asset funds, which garnered €29.5bn of new money. Mutual property funds saw a net inflow of €5.5bn. The volume of new special funds for institutional investors fell slightly to €88.1bn, relative to €96.2bn the previous year.

Regulatory environment

Changes to regulations, both those already initiated and those in the pipeline, once again influenced the business model and profitability of the Deka Group during the 2017 financial year. Regulatory projects especially make considerable demands on costs and resources.

Regulatory topics

The Basel Committee laid down the final Basel III regulatory framework, also known as "Basel IV", at the start of December 2017. The agreement includes in particular an output floor of 72.5%, which limits the advantage of internal models over standard procedures. New rules for calculating risk-weighted assets for the purposes of counterparty, CVA and operational risk were also approved. Application is to begin in 2022, although the output floor will be introduced gradually with the final value of 72.5% not being reached until 2027. The framework has not yet been incorporated into European law. DekaBank currently uses the IRB approach for the majority of its lending and an up-to-date internal model for market price risk. It will therefore be particularly affected by the new output floor rules, which may lead to a significant rise in risk-weighted assets (RWA) going forward.

Another issue linked to the finalisation of Basel III is the "fundamental review of the trading book" (FRTB). Although the final standard for determining capital requirements for market price risk was published in January 2016, numerous details remain to be clarified. At present, it is anticipated that first-time application for EU credit institutions will be legally binding as from 2021 at the earliest. Alterations to the rules on dividing the banking book from the trading book and on the revised standardised approach, as well as the revised internal model, are also likely to lead to a future rise in RWA.

Finalisation of Basel III was accompanied in December 2017 by the final provisions for the Standardised Measurement Approach (SMA), a new uniform calculation method for capital adequacy requirements in relation to operational risk. Given the substantial leeway afforded to national supervisory authorities in relation to its implementation, it is difficult to estimate when and to what extent the SMA will be incorporated into European law. Overall, however, higher costs are likely to result from the simultaneous use of the internal calculation model and the new methodology, as well as from increased disclosure requirements regarding data on losses.

As part of the revision of European capital and liquidity requirements (CRR II/CRD V), it is also planned to tighten up the rules on large exposures, which would mean large exposure risks being handled more restrictively. The large exposure limit will no longer be set according to the level of total own funds but instead according to the level of Core Equity Tier 1 capital. In addition, when collateral is accepted, the collateral provider or issuer of the financial collateral shall be required to take the loan into account in their large exposure limit. Repo and stock lending transactions may become less attractive as a result.

Between March and May 2017, the ECB conducted an EU-wide stress test (sensitivity analysis of interest rate risk in the banking book) on major institutions, including DekaBank. The results have been included in the calculation of the relevant capital ratios for 2018 as prescribed by the regulator under the Supervisory Review and Evaluation Process (SREP).

A further EBA stress test is planned for 2018, which, as in 2016, will cover all risk types. For the first time, account will have to be taken of the new accounting rules under IFRS 9, which are likely to have a significant impact on stress test results. Publication of the results is scheduled for November 2018.

DekaBank is not among the banks taking part in the EBA stress test. As a bank subject to ECB supervision, however, it will be subjected to a stress test by the ECB in 2018 which will be carried out in accordance with EBA methodology. The results of the ECB's internal stress test, unlike those of the EBA banks, will not published. They will, however, feed into the calculation of SREP ratios for 2019.

In 2016, the Single Resolution Board (SRB) requested the German Federal Agency for Financial Market Stabilisation (FMSA) to draw up a resolution plan for all institutions subject to direct ECB supervision, and to involve the institutions themselves in this process. As the Single Supervisory Mechanism (SSM) applies to the Deka Group, DekaBank also assisted the SRB and FMSA in their work on a resolution plan for the Deka Group during 2017. This is based on the European Bank Recovery and Resolution Directive (BRRD) as well as on the accompanying regulation on the European Single Resolution Mechanism (SRM). This work will continue in 2018 and should form the basis for setting the minimum requirements on holding own funds and eligible liabilities for the purposes of loss absorption and recapitalisation in the event the bank enters resolution (Minimum Requirement for Eligible Liabilities – MREL).

The ESMA published its final report on the European Securities Financing Transaction Regulation (SFTR), containing implementation and regulatory standards, in April 2017. The SFTR obliges market participants to report information about trades and exposures to a recognised EU trade repository. This applies to securities financing transactions and commodities lending, including repo and stock lending trades. Implementation costs are expected to be high, given the large number of different items of reportable information. Once the regulations on implementation and regulatory standards come into force, banks and investment firms will be given twelve months to comply, while an 18-month period will be granted for funds. The regulations have not yet been passed by the EU Commission and Parliament. It is currently expected that DekaBank will begin reporting in the first half of 2019.

In February 2017, the ECB began a multi-year project to develop pan-European rules for the internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP) for major banks. Two guidelines containing detailed principles have been published in this regard by the Single Supervisory Mechanism. Further evolution of the ICAAP and ILAAP rules is scheduled to be finalised after going through a consultation process in 2018. DekaBank is closely monitoring the evolution of these prudential requirements and examining them with a view to identifying any potential need to alter existing processes and methods.

Product and performance-related regulatory proposals

National legislation implementing the EU Markets in Financial Instruments Directive II (MiFID II) and the EU Markets in Financial Instruments Regulation (MiFIR) came into force on 3 January 2018. MiFID II and MiFIR impose new requirements for investor protection and market infrastructure, and affect almost all of the Deka Group’s portfolio of products and services. The directives include new regulations in relation to commission, product governance, enhanced record-keeping, extended obligations for institutions with proprietary trading (“systematic internalisers”), new provisions for automated trading and derivatives trading, and new reporting obligations for securities trading. DekaBank has implemented the requirements of MiFID II and MiFIR on time, in close cooperation with the DSGV. This gives rise in particular to higher costs for securities and derivatives trading as well as to liability risks. Implementation in close partnership with the savings banks, and the ensuing tighter integration, has visibly strengthened the confederate structure of the savings bank association.

Directive 2014/49/EU of the European Parliament and of the Council of April 2014 on deposit guarantee schemes (European Deposit Guarantee Schemes Directive) harmonised the requirements for national deposit guarantee schemes at a European level. A new proposal from the EU Commission issued in October 2017 now sets the target of passing a new European Deposit Insurance Scheme into law by the end of 2018, with implementation to follow in stages over the period until 2024. This will form a further component of the banking union. In the first stage of the process, liquidity assistance will be made available in the event that a national guarantee scheme runs out of money. In stage two, however, all savers will be compensated from a single guarantee pot. There are inherent risks in an EU-wide pooling of liability. The proposal is currently under discussion and the outcome is not yet clear.

Tax policy developments

The German Investment Tax Reform Act (*Investmentsteuerreformgesetz*) came into force on 1 January 2018. The new Act fundamentally changes the taxation of investment funds in Germany. Henceforth, both mutual funds and special funds will be liable to corporation tax on income from domestic equities, rental income and gains on property disposals. To compensate for taxation of the fund, private investors in particular will receive suitable partial exemptions, which are designed to ensure that their overall tax burden does not rise. The exemptions will be applied when calculating withholding tax. Subject to certain conditions, the regulations for special investment funds will remain unchanged. Deka will incur expenses for implementation of the reform. The new rule has not affected the attractiveness of the Deka Group's fund products, as appropriate partial exemption rules exist to offset the performance-dampening effects at fund level.

Another tax change relates to the grandfathering of old investment fund units for private investors. Gains achieved up to 31 December 2017 are protected by grandfathering rules. Gains realised after 1 January 2018 will be subject to the new tax regime to the extent they exceed a tax-exempt amount of €100,000. The Deka Group does not expect the new rule to affect the investing behaviour of customers.

Business development and profit performance in the Deka Group

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

The Deka Group ended the 2017 financial year with an economic result of €448.9m, 8.1% higher than the result for the previous year. The rise was due partly to higher net commission income, which reflected the strong growth of total customer assets.

Net sales rose by a total of €8.8bn to a record level of €25.7bn, with direct sales of mutual funds (including via fund savings plans and pension products) and special funds approximately doubling. Bond and mixed asset funds in particular rose substantially, although growth was also recorded in other asset classes. In certificates business, the good volumes achieved in the prior year were maintained.

Deka Group net sales *in €m (Fig. 1)*

	2017	2016
Net sales	**25,671**	**16,914**
by customer segment		
Retail customers	12,309	7,710
Institutional customers	13,362	9,204
by product category		
Mutual funds and fund-based asset management	8,492	4,265
Special funds and mandates	9,724	4,933
Certificates	7,597	7,528
ETFs	– 141	188

The rise in total customer assets by €26.1bn to €282.9bn reflects both a high level of new business and sound investment performance by the individual products, notwithstanding the outflows caused by distributions (from which customers also benefited).

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

	31 Dec 2017	31 Dec 2016	Change	
Total customer assets	**282,888**	**256,805**	26,083	10.2%
by customer segment				
Retail customers	138,951	128,650	10,301	8.0%
Institutional customers	143,937	128,155	15,782	12.3%
by product category				
Mutual funds and fund-based asset management	141,166	130,471	10,695	8.2%
Special funds and mandates	115,057	102,934	12,123	11.8%
Certificates	17,552	15,079	2,473	16.4%
ETFs	9,113	8,321	792	9.5%

Utilisation of risk capacity fell slightly compared with the already modest level at the end of 2016 (35.2%) and stood at 34.4% at the 2017 reporting date. This is because risk capacity rose while overall risk remained virtually unchanged relative to the prior year.

The Deka Group is also starting its centenary year of 2018 from a good financial and asset position. The fully loaded Common Equity Tier 1 capital ratio, calculated in accordance with the requirements of CRR/CRD IV, stood at 16.7% at the year-end (previous year: 16.7%). Common Equity Tier 1 capital was strengthened through reinvestment of net profits from 2016. Against this, risk-weighted assets rose slightly.

The SREP requirement for the phase-in Common Equity Tier 1 capital ratio, which came into force at the start of 2017, was substantially exceeded at all times. The figure applicable at 31 December 2017 was 7.22%. This value is made up of the Pillar One minimum requirement (4.5%) plus the Pillar Two requirement (1.25%), the capital conservation buffer (1.25%), the countercyclical capital buffer (approximately 0.06% at the year-end) and the capital buffer for other systemically important banks (0.16%). The capital requirement for the total capital ratio (phase-in) was 10.72%.

The minimum phase-in Common Equity Tier 1 capital ratio for 2018, as calculated at the start of the year, was around 8.00%. In comparison to 2017, the capital conservation buffer prescribed by prudential regulations has risen to 1.875% and the capital buffer for other systemically important banks to 0.32%. The capital requirement for the total capital ratio (phase-in) is approximately 11.50%.

The Deka Group's liquidity position remained very comfortable throughout the year and across all relevant maturities. The minimum requirements for the liquidity coverage ratio (LCR) were clearly exceeded. The fully loaded leverage ratio stood at 4.7% at the year-end. This figure is already substantially above the expected minimum ratio of 3.0% to be observed in 2019.

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

Comparison of forecast and actual growth

Expectations regarding the Deka Group's results for 2017, as set out in the forecast report in the 2016 Group management report and updated in the 2017 interim report, were met and in some cases exceeded:

Performance of key ratios in the Deka Group *(Fig. 3)*

		31 Dec 2016	Forecast report 2016	Interim report 2017	31 Dec 2017	Change	
Economic result	€m	415.1	At around the previous year's level	At around the previous year's level	448.9	33.8	8.1%
Total customer assets	€bn	256.8	Slight increase	Slight increase	282.9	26.1	10.2%
Net sales	€bn	16.9	Slight increase	Slight increase	25.7	8.8	51.8%
Common Equity Tier 1 capital ratio	%	16.7	Over 13%	Over 13%	16.7	0.0 %-points	
Utilisation of risk capacity	%	35.2	Slight increase	Slight increase	34.4	–0.8 %-points	

Ratings

DekaBank's ratings remain among the best in its peer group of German commercial banks. In February 2017, Standard & Poor's (S&P) raised the issuer rating from A to A+ with a stable outlook due to the sustainable integration of DekaBank into the *Sparkassen-Finanzgruppe*. The short-term rating was confirmed at A-1. S&P renewed these ratings in October 2017. At the end of June 2017, Moody's confirmed DekaBank's long-term senior unsecured and issuer rating of Aa3 with a stable outlook. The short-term rating stands at P-1. In mid-December, as a result of EU efforts to harmonise bail-in liability cascades across Europe and introduce a new bond category of "senior non-preferred debt", Moody's reclassified the outlook for all senior unsecured debt of German banks as negative. This affected the entire industry, including DekaBank. Moody's awarded an Aaa rating to DekaBank's Pfandbrief bonds.

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

Profit performance of the Deka Group

The 8.1% rise in the economic result to €448.9m (previous year: €415.1m) is primarily due to the substantial jump in net commission income and to substantially smaller increases in provisions for loan losses relative to the previous year.

The 6.4% increase in total income to €1,494.1m (previous year: €1,403.7m) was accompanied by a comparatively small increase of 5.7% in expenses to €1,045.2m (previous year: €988.6m), which was principally due to tighter regulatory requirements.

Net interest income of €155.6m was 11.8% up on the previous year (€139.2m). Key components of net interest income were the earnings contribution from specialised and property financing in the Financing business division, as well as the earnings contribution from the strategic investments unit in the Capital Markets business division, which were slightly below the previous year's level overall. The slight rise during the year under review was mainly due to higher income from short-term liquidity management and lower interest expenses on equity instruments.

Loan loss provisioning fell very substantially to €–17.8m (previous year: €–209.8m). Of this, €–28.5m related to lending business (previous year: €–194.6m). Risk provisioning requirements were relatively low in the year under review. This was in contrast to the previous year, when substantial specific provisions were recorded, particularly on legacy ship financing loans. The risk provisioning result for securities in the "loans and receivables" and "held to maturity" categories was positive at €10.7m, compared to a net increase in provisions of €–15.2m in the previous year. This resulted principally from the partial release of a portfolio provision in the reporting year.

Net commission income increased by an encouraging 8.6% to €1,202.7m (previous year: €1,107.4m). This essentially resulted from portfolio-based fees for fund management. The increase in total customer assets, due to strong net sales performance and solid fund performance, was a major contributing factor. The decrease in commission income from banking, in particular from the Commission Business unit, was compensated by increased income from custody account business.

At €156.3m, net financial income fell short of the high figure of €316.5m achieved the previous year. Net financial income comprises all income elements of the trading book portfolios, the measurement result and net gains on sale from the banking book portfolios and the risk provisions for securities in the LaR and HtM categories.

At €252.4m, net financial income from trading book portfolios was higher than in the previous year (€252.8m). A key component of the total was income from the Trading & Structuring unit, which benefited from high demand among institutional customers for debt issues and certificates business. Income from the Collateral Trading unit also rose in spite of the difficult market.

Net financial income from the banking book, at €–106.8m, was substantially below the previous year's result of €78.9m. The principal reason was the €95m increase in the general provision to cover potential risks. Additions to or releases from the general provision are reflected in the economic result outside the IFRS profit or loss and without specific allocation to business divisions. If the general provision is excluded, net financial income from the banking book would be €–11.8m. This was due to remeasurement effects on securities as a result of movements in markets and spreads during the year. The previous year's figure included gains on remeasurement on account of movements in spreads, as well as a small €10m increase in the general provision.

Other operating profit of €8.0m was below the previous year's figure (€35.2m). Actuarial gains of €15.4m were recorded in respect of pension provisions, owing to a rise in the value of plan assets. The year-end actuarial interest rate of 1.9% was essentially the same as the year before (1.95%). In the previous year, by contrast, changes in the actuarial interest rate resulted in an actuarial loss of €15.2m. Actuarial effects are not included in the IFRS income statement as they are posted directly in equity (revaluation reserve). However, they are reported in the economic result as part of the profit or loss for the period. Prior-year other operating profit included positive effects resulting from the acquisition of S Broker and the acquisition on 1 January 2014 of LBB-INVEST.

Personnel expenses increased by 7.4% to €524.3m, compared with the previous year's €488.4m. This was due to the full-year consolidation of S Broker (consolidated for only six months in 2016), as well as to a rise in staffing levels (2.2%) and to wage rises.

Operating expenses (excluding bank levy and depreciation) rose by 7.4% compared with the previous year (€429.2m) to €460.9m. This was partly the effect of increased expenses for the implementation of regulatory requirements. Higher marketing and sales expenses were also incurred, owing to the further intensified support provided to savings banks.

At €35.3m, the bank levy was close to the previous year's level (€34.4m).

Depreciation and amortisation charges of €19.3m (previous year: €18.1m) mainly comprise the amortisation of intangible assets.

Restructuring expenses of €5.4m were incurred in 2017. These were due in particular to the strategic reorganisation of LBB-INVEST. The previous year's figure included restructuring provisions of €18.5m.

The cost/income ratio, i.e. the ratio of total expenses to total income (excluding restructuring expenses and movements in provisions for loan losses), was 68.3% and thus fell short of the 60.7% figure achieved the previous year, as a result of the matters described above. Return on equity (before tax) rose to 9.9% (previous year: 9.6%).

Deka Group performance *in €m (Fig. 4)*

	2017	2016	Change	
Net interest income	155.6	139.2	16.4	11.8%
Provisions for loan losses	–28.5	–194.6	166.1	85.4%
Net commission income	1,202.7	1,107.4	95.3	8.6%
Net financial income[1]	156.3	316.5	–160.2	–50.6%
Other operating profit	8.0	35.2	–27.2	–77.3%
Total income	**1,494.1**	**1,403.7**	90.4	6.4%
Administrative expenses (including depreciation)	1,039.8	970.1	69.7	7.2%
Restructuring expenses	5.4	18.5	–13.1	–70.8%
Total expenses	**1,045.2**	**988.6**	56.6	5.7%
Economic result	**448.9**	**415.1**	33.8	8.1%

[1] Net financial income includes risk provisions for securities in the LaR and HtM categories of €10.7m (previous year: €–15.2m).

Business development and profit performance by business division

Prior-year figures have been adjusted on account of the reorganisation of the business divisions and therefore do not correspond to the figures published in last year's report.

Business development and profit performance in the Asset Management Securities business division

The economic result increased substantially relative to the previous year's figure, owing to the rise in net commission income. The Asset Management Securities business division can look back on a successful year. Net sales more than doubled, with substantial growth in both retail and institutional business. Total customer assets rose to €231.0bn, which was also due to the solid performance of the funds.

Net sales performance and total customer assets

Net sales performance in the division was €15.9bn (previous year: €6.9bn). This was the highest figure for more than ten years.

Net sales of mutual securities funds, including fund-based asset management, rose to €6.4bn (previous year: €2.5bn). A substantial part of this derived from direct sales of equity, bond and mixed asset funds, both via lump-sum investments and via regular saving into fund savings plans. In product terms, investor demand for *Deka-DividendenStrategie* was particularly strong. Overall, direct sales of mutual funds rose by €4.7bn to €5.6bn. Net sales for fund-based asset management were €0.8bn (previous year: €1.6bn).

Net sales of securities special funds, master funds and advisory/management mandates more than doubled to €9.6bn (previous year: €4.3bn). Significant growth was achieved in securities special funds and master funds.

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

	2017	2016
Net sales	**15,870**	**6,932**
by customer segment		
Retail customers	5,563	2,258
Institutional customers	10,307	4,674
by product category		
Mutual funds and fund-based asset management	6,426	2,474
ETFs	–141	188
Special funds and mandates	9,585	4,269

The business division's total customer assets rose by 10.4% to €231.0bn. In addition to high sales, a substantial proportion of this was due to investment performance – particularly among equity funds and securities special funds.

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

	31 Dec 2017	31 Dec 2016	Change	
Total customer assets	**230,991**	**209,242**	21,749	10.4%
by customer segment				
Retail customers	103,104	96,169	6,935	7.2%
Institutional customers	127,887	113,073	14,814	13.1%
by product category				
Mutual funds and fund-based asset management	112,883	103,857	9,026	8.7%
thereof: equity funds	29,656	26,061	3,595	13.8%
thereof: bond funds	36,473	35,663	810	2.3%
thereof: mixed asset funds	16,377	15,335	1,042	6.8%
ETFs	9,113	8,321	792	9.5%
Special funds and mandates	108,995	97,064	11,931	12.3%

Profit performance in the Asset Management Securities business division

The rise in the economic result to €345.4m (previous year: €278.6m) was mainly founded on a rise in net commission income, which was €49.8m higher than the previous year's figure owing to a rise in portfolio-based fees. The increase in total customer assets was a major contributing factor. Expenses were below the previous year's figure, and thus also contributed positively.

Profit performance in the Asset Management Securities business division *in €m (Fig. 7)*

	2017	2016	Change	
Net commission income	716.1	666.3	49.8	7.5%
Other income	34.1	28.8	5.3	18.4%
Total income	**750.2**	**695.1**	55.1	7.9%
Administrative expenses (including depreciation)	389.7	391.0	–1.3	–0.3%
Restructuring expenses	3.8	18.5	–14.7	–79.5%
Total expenses	**393.5**	**409.5**	–16.0	–3.9%
Economic result without Treasury function	**356.7**	**285.6**	71.1	24.9%
Treasury function	–11.3	–7.1	–4.2	–59.2%
Economic result	**345.4**	**278.6**	66.8	24.0%

Business development and profit performance in the Asset Management Real Estate business division

The economic result outstripped the previous year's figure, thanks to higher variable fund management fees. The solid investment performance of the funds was based on a further improvement in rental performance as well as on substantially higher transaction volumes relative to 2016. The Asset Management Real Estate business division achieved net sales performance that came just short of the previous year, while maintaining a conservative management strategy.

Net sales performance and total customer assets

Net sales performance in the division was €2.2bn in 2017 (previous year: €2.5bn).

For open-ended mutual property funds, the sales quota set on the basis of a conservative yield and liquidity management was met after only a few months. An interim distribution from the funds, prompted by the changes contained in the German Investment Tax Reform Act (*Investmentsteuerreformgesetz*), led to further inflows at the year-end as a result of the high proportion of reinvestment. Overall, the net sales performance of €2.1bn was consequently higher than the previous year's figure of €1.8bn. The majority of net sales related to *Deka-ImmobilienEuropa* and *Deka-ImmobilienGlobal*.

Net sales performance for special funds and individual property funds was €0.1bn (previous year: €0.7bn). As in the previous year, net outflows were recorded in relation to single-investor funds as funds with a fixed lifetime reached maturity. The new range of club deals initiated at the end of 2016, together with advisory services related to the *Deka Immobilien-Kompass*, provide a good platform for the expansion of institutional business in subsequent years. The first fund advisory mandate, for instance, was successfully put in place in 2017.

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

	2017	2016
Net sales	**2,204**	**2,455**
by customer segment		
Retail customers	1,924	1,697
Institutional customers	280	758
by product category		
Mutual property funds	2,065	1,791
Special funds and individual property funds	139	664

Total customer assets in the Asset Management Real Estate business division rose by 5.7% to €34.3bn (2016: €32.5bn), despite the interim distribution carried out in December. Mutual property funds accounted for €28.3bn (2016: €26.6bn). Total customer assets in special funds and individual property funds rose over the course of the year to €6.1bn (2016: €5.9bn). This included credit funds with a total asset value of €1.1bn, the same figure as in the previous year.

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

	31 Dec 2017	31 Dec 2016	Change	
Total customer assets	**34,345**	**32,484**	1,861	5.7%
by customer segment				
Retail customers	26,232	24,781	1,451	5.9%
Institutional customers	8,113	7,703	410	5.3%
by product category				
Mutual property funds	28,283	26,614	1,669	6.3%
Special funds and individual property funds	6,062	5,870	192	3.3%

The increase in total customer assets was driven by healthy fund performance as well as positive net sales performance. The mutual property funds, which are denominated in euros, achieved an average volume-weighted return of 2.7% (previous year: 2.4%), thanks in part to rigorous cash management.

Transaction volume, i.e. purchases and sales of property, rose substantially to €5.9bn (previous year: €4.3bn). Around 72% of the total transaction volume was attributable to purchases of a total of 33 contractually secured properties, and the rest to 39 disposals. Business activities continue to centre on properties in the office, shopping, hotel and logistics asset classes. With this transaction volume, the Deka Group and its property funds remain one of the world's biggest property investors.

Profit performance in the Asset Management Real Estate business division

The division's economic result rose substantially to €111.0m (previous year: €69.4m). The rise in its net commission income was materially influenced by variable management fees received from one open-ended mutual property fund. While income grew, expenses – which included project and sales/marketing expenses – did not rise to the same degree.

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

	2017	2016	Change	
Net interest income	4.8	3.5	1.3	37.1%
Provisions for loan losses	0.0	0.0	0.0	n/a
Net commission income	240.4	196.1	44.3	22.6%
Net financial income	–0.2	–2.7	2.5	92.6%
Other operating profit	1.9	1.8	0.1	5.6%
Total income	**246.9**	**198.8**	48.1	24.2%
Administrative expenses (including depreciation)	133.0	126.9	6.1	4.8%
Restructuring expenses	0.0	0.0	0.0	n/a
Total expenses	**133.0**	**126.9**	6.1	4.8%
Economic result without Treasury function	**113.9**	**71.9**	42.0	58.4%
Treasury function	–2.9	–2.5	–0.4	–16.0%
Economic result	**111.0**	**69.4**	41.6	59.9%

Business development and profit performance in the Asset Management Services business division

The Asset Management Services division has considerably expanded the Deka Group's online services for customers. Substantial growth was achieved both in the number of custody accounts and the volume of assets under custody.

Business development in the Asset Management Services business division

The divisional structure introduced at the start of 2017 positioned depositary services as an offering for external customers and expanded product sales. The volume acquired as a result, along with growth in the two asset management divisions, led to a 7.7% increase in assets under custody to €201.6bn. The number of custody accounts for which the division is the legal provider rose by 4.7% to some 4,492 thousand. One reason for this was strong demand among savings banks customers for regular saving products.

In the Digital Multichannel Management subdivision, collaboration with the savings banks has been substantially increased. Assets under custody totalled €119.3bn as at the end of 2017, representing a rise of 12.8%. The number of securities transactions was just under 30% higher than in the previous year. This was partly due to the interim distribution made by the funds in December 2017 on account of the changes contained in the German Investment Tax Reform Act.

The *Deka-Relax* robo-advisory product, which combines actively managed fund-of-funds solutions with an overall stop-loss limit and the automatic updating of (non-guaranteed) capital preservation targets, has already been incorporated into the product range of a number of savings banks. The number of savings banks using S Broker's "S Comfort" custody account offering also rose in 2017.

Profit performance in the Asset Management Services business division
The economic result for the division was a loss of €4.8m. The key component of the division's income is net commission income, which rose by 7.8% during the year under review to €161.7m. Against this, administrative expenses were €165.4m. The €51.2m rise in administrative expenses resulted chiefly from the expansion of digital multichannel management, the full-year consolidation of S Broker for the first time and the increase in operating and personnel expenses, which was prompted by regulatory matters. The previous year's economic result, a €75.4m profit, was heavily influenced by positive income statement effects of some €36m from the acquisition of S Broker.

Profit performance in the Asset Management Services business division *in €m (Fig. 11)*

	2017	2016	Change	
Net interest income	4.2	1.8	2.4	133.3%
Provisions for loan losses	0.0	0.0	0.0	n/a
Net commission income	161.7	150.0	11.7	7.8%
Net financial income	–0.1	3.6	–3.7	–102.8%
Other operating profit	–2.1	35.5	–37.6	–105.9%
Total income	**163.7**	**190.9**	–27.2	–14.2%
Administrative expenses (including depreciation)	165.4	114.2	51.2	44.8%
Restructuring expenses	1.6	0.0	1.6	n/a
Total expenses	**167.0**	**114.2**	52.8	46.2%
Economic result without Treasury function	**–3.3**	**76.8**	–80.1	–104.3%
Treasury function	–1.6	–1.4	–0.2	–14.3%
Economic result	**–4.8**	**75.4**	–80.2	–106.4%

Business development and profit performance in the Capital Markets business division
The Capital Markets business division again achieved a good economic result in 2017, despite market conditions that were hampered by low interest rates and regulatory requirements. As the product, solutions and infrastructure provider in the *Wertpapierhaus* of the *Sparkassen-Finanzgruppe,* the division further honed its profile with new product and advisory offerings.

Business development in the Capital Markets business division
In a market that continued to be marked by low interest rates, the Collateral Trading unit achieved profits above the previous year's figure, which was partly attributable to innovative solutions in stock lending trades and collateral management.

The Commission Business unit was below the previous year's level, as expected.

The Trading & Structuring unit benefited from strong demand among institutional customers for debt issues and certificates. It also cemented its position as market leader in the accompanying primary market for German Federal States. The unit also expanded its position in the retail certificates market. Market share in the primary market for investment products rose to 16.0% in 2017. Net sales in the certificates business were approximately €7.6bn, slightly above the previous year's figure. Of this total, €4.8bn (previous year: €3.8bn) related to retail customers and €2.8bn (previous year: €3.8bn) to institutional customers.

Profit performance in the Capital Markets business division

At €195.6m, the business division's economic result was comparable to the previous year (€196.6m). A large proportion of the total related to net financial income, which was marked by high customer demand for structured products and own issues. Risk provisioning for securities (LaR and HtM) also moved in a positive direction, as did the spread-related measurement result for strategic investments. This was more than enough to offset the decline in commission income and net interest income. Falling administrative expenses also contributed to the good economic result.

Profit performance in the Capital Markets business division *in €m (Fig. 12)*

	2017	2016	Change	
Net interest income	36.0	40.7	–4.7	–11.5%
Provisions for loan losses	0.0	0.1	–0.1	–100.0%
Net commission income	51.2	66.9	–15.7	–23.5%
Net financial income	295.9	262.3	33.6	12.8%
Other operating income	2.3	12.1	–9.8	–81.0%
Total income	**385.4**	**382.1**	3.3	0.9%
Administrative expenses (including depreciation)	165.9	170.1	–4.2	–2.5%
Restructuring expenses	0.0	0.0	0.0	n/a
Total expenses	**165.9**	**170.1**	–4.2	–2.5%
Economic result without Treasury function	**219.5**	**212.0**	7.5	3.5%
Treasury function	–23.9	–15.4	–8.5	–55.2%
Economic result	**195.6**	**196.6**	–1.0	–0.5%

Business development and profit performance in the Financing business division

The Financing business division reported a substantially better economic result in 2017 than in the previous year. Net interest income and net commission income were in total approximately the same as the year before. Additions to provisions for loan losses were substantially lower than in the previous year, when impairments were charged on account of the ship loans crisis.

The division's financing portfolio was expanded outside the saving bank financing segment. The volume of new business arranged for vehicle and infrastructure financing was expanded in 2017, while new real estate financing business was moderately below the good result achieved the previous year.

Business development in the Financing business division

Gross lending volume in the division was €21.6bn at the end of 2017 (2016: €21.7bn). Of this total, €13.0bn (previous year: €14.7bn) related to specialised financing and €8.6bn (previous year: €7.0bn) to the real estate financing subdivision.

The fall in overall portfolio size in the specialised financing subdivision was due chiefly to lower demand for savings bank financing, exchange-rate effects and loan repayments. Of the year-end portfolio, €2.4bn related to infrastructure financing (2016: €2.0bn), €1.1bn related to export financing (previous year: €0.8bn), and €3.9bn related to vehicle financing (previous year: €4.6bn). Vehicle financing comprised ship financing of €0.9bn and aircraft financing of €3.0bn.

The gross loan volume in relation to savings bank financing was €5.3bn (previous year: €7.3bn).

The legacy portfolio, which primarily contains ship financing loans that were made before the lending risk strategy was changed in 2010, was reduced by €0.4bn, more than had been planned. Legacy ship financing loans totalled €0.3bn at the end of 2017. Overall, ship financing loans totalled €1.2bn (previous year: €1.6bn).

The average rating for the loan portfolio as a whole was 5 on the DSGV master scale, unchanged since the end of 2016. This corresponds to a rating of BBB– on the S&P rating scale.

Gross loan volume in the real estate financing subdivision was split between €7.1bn for commercial property lending (2016: €6.1bn) and €1.4bn of loans to open-ended property funds (2016: €0.9bn). The average rating for the loan portfolio on the DSGV master scale improved by one point from 4 to 3. This corresponds to a rating of BBB on the external S&P rating scale.

The volume of new business arranged in the Financing business division was €6.9bn (previous year: €6.5bn), of which €3.6bn related to the specialised financing subdivision (previous year: €2.7bn) and €3.4bn to the real estate subdivision (previous year: €3.8bn). Aircraft financing made up the largest part of the new business arranged in specialised financing, and accounted for 23% of new business as a whole (previous year: 12%). In real estate finance, the largest part of new business related to commercial property lending, which made up 34% of the total (previous year: 39%). The savings bank financing segment made up 8% of total new business in the Financing division (previous year: 17%).

The total amount of placements was €2.2bn, moderately above the previous year's figure of €1.9bn. Around 21% of this was placed with the *Sparkassen-Finanzgruppe*.

Profit performance in the Financing business division
The economic result of the Financing business division rose substantially to a €50.5m profit, from a €–120.7m loss the previous year. The previous year's result had been weighed down in particular by specific provisions on legacy ship financing loans. A total expense of €–28.5m was recorded for loan loss provisioning in the reporting year, as against an expense of €–194.5m the year before. Net interest income and net commission income were approximately the same as the year before. At €56.6m, administrative expenses exceeded the prior-year figure of €52.1m, largely as a result of higher personnel and project expenses.

Profit performance in the Financing business division *in €m (Fig. 13)*

	2017	2016	Change	
Net interest income	114.2	119.8	–5.6	–4.7%
Provisions for loan losses	–28.5	–194.5	166.0	85.3%
Net commission income	34.3	29.6	4.7	15.9%
Net financial income	–10.6	–14.3	3.7	25.9%
Other operating profit	14.6	0.3	14.3	(> 300%)
Total income	**123.9**	**–59.2**	183.1	(> 300%)
Administrative expenses (including depreciation)	56.6	52.1	4.5	8.6%
Restructuring expenses	0.0	0.0	0.0	n/a
Total expenses	**56.6**	**52.1**	4.5	8.6%
Economic result without Treasury function	**67.4**	**–111.3**	178.7	160.6%
Treasury function	–16.9	–9.5	–7.4	–77.9%
Economic result	**50.5**	**–120.7**	171.2	141.8%

Business development and profit performance in non-core business
An economic result of €11.2m (previous year: €18.2m) was reported for non-core business. This is the last year in which non-core business will be disclosed as a separate segment. Gross loan volume, which is made up of legacy business in securitised structured products and foreign public-sector bonds from the former public finance portfolio, reduced from €0.8bn to €0.6bn during the year. The rating for the net loan volume improved from 3 to A on the DSGV master scale. The strategy of winding down the portfolio will be maintained for the remaining credit substitute business.

Profit performance in non-core business *in €m (Fig. 14)*

	2017	2016	Change	
Net interest income	3.2	5.5	−2.3	−41.8%
Provisions for loan losses	0.0	0.0	0.0	n/a
Net commission income	0.0	0.0	0.0	n/a
Net financial income	8.4	13.4	−5.0	−37.3%
Other operating income	0.0	0.0	0.0	n/a
Total income	**11.5**	**18.9**	−7.4	−39.2%
Administrative expenses (including depreciation)	0.4	0.8	−0.4	−50.0%
Restructuring expenses	0.0	0.0	0.0	n/a
Total expenses	**0.4**	**0.8**	−0.4	−50.0%
Economic result without Treasury function	**11.2**	**18.2**	−7.0	−38.5%
Treasury function	0.0	0.0	0.0	n/a
Economic result	**11.2**	**18.2**	−7.0	−38.5%

Financial position and assets and liabilities of the Deka Group

Financial management principles and objectives

Via its Treasury corporate centre, DekaBank pursues an integrated approach aimed at the efficient active management of group-wide liquidity, thus ensuring that flexibility and investor trust are retained even in difficult market situations. DekaBank acts as a liquidity platform, both through the close integration of asset management and banking activities and by operating cash pooling for the savings banks.

The Bank has high volumes of central bank-eligible highly liquid assets, which can be used to generate liquidity via various market access routes at any time.

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

Deka's good ratings also enable ready access, at competitive terms, to the money and capital markets. In order to achieve a diversified refinancing position, DekaBank uses a variety of refinancing instruments and issue programmes which ensure that funding is obtained from a broad, diversified range of sources with a variety of currencies, maturities, products and investors. Repo and stock lending transactions are used for refinancing purposes, in addition to traditional overnight money and time deposits. DekaBank is one of the largest participants in the German repo market.

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

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

Financial position, capital structure, assets and liabilities
The Deka Group's total balance sheet assets were €93.7bn as at the end of 2017, representing a rise of 9% over the previous year's figure of €86.0bn.

Amounts due from banks and customers rose during the reporting period by a total of €3.6bn to €47.0bn and accounted for around half of total assets. The change was due chiefly to a customer-driven rise in reverse repo transactions, the majority of which were refinanced on the money markets. Owing to excess liquidity in the money and capital markets, higher liquidity surpluses on the part of customers and the Deka Group's good credit rating, deposit business could be transacted on the money markets at rates that were often substantially below the central bank's deposit facility rate. Parts of these deposit surpluses increased our risk-free cash reserves at the central bank by €6.4bn to €10.0bn. On the other hand, financial assets recognised at fair value through profit or loss fell by around €2.9bn, mainly due to the interest-driven market values of derivatives, and thus amounted to some €32bn. They made up around 34% of total assets as at the reporting date.

On the liabilities side, amounts due to banks and customers collectively rose by €5.1bn to €45.9bn, and thus accounted for around 49% of total assets. This movement resulted mainly from the increase in customer deposits. Securitised liabilities also went up to €14.2bn, a substantial rise of €3.2bn which was due *inter alia* to increased money market refinancing via commercial paper. Financial liabilities measured at fair value remained virtually unchanged at €26.0m, with the reduction due to the interest-driven market values of derivatives being offset by an increase in trading issues. At the 2017 year-end, balance sheet equity was up year-on-year, amounting to €5.3bn (previous year: €5.1bn).

Changes in the Deka Group balance sheet *in €m (Fig. 15)*

	31 Dec 2017	31 Dec 2016	Change	
Total assets	**93,740**	**85,955**	7,785	9.1%
Selected asset items				
Due from banks and customers	47,047	43,495	3,552	8.2%
Financial assets at fair value	31,985	34,903	−2,918	−8.4%
Financial investments	3,791	2,969	822	27.7%
Selected liability items				
Due to banks and customers	45,899	40,782	5,117	12.5%
Securitised liabilities	14,235	11,076	3,159	28.5%
Financial liabilities at fair value	25,983	26,519	−536	−2.0%

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

The change in the Common Equity Tier 1 capital ratio (fully loaded) is discussed as part of the overall commentary on the business trend and the Group's position. The corresponding total capital ratio stood at 21.9% at year-end (2016: 22.2%).

The leverage ratio determined in accordance with the Delegated Regulation of 17 January 2015, i.e. the ratio of Common Equity Tier 1 capital to total balance sheet assets as adjusted in line with regulatory requirements, amounted to 4.7% (fully loaded) at 31 December 2017, compared with 5.1% at the end of 2016. A leverage ratio of 4.8% is disclosed under the phase-in rules (2016: 5.2%). This is substantially above the minimum leverage ratio of 3.0% that is expected to apply in 2019.

Deka Group own funds *in €m (Fig. 16)*

	31 Dec 2017		31 Dec 2016	
	CRR/CRD IV (without transitional provisions)	CRR/CRD IV (with transitional provisions)	CRR/CRD IV (without transitional provisions)	CRR/CRD IV (with transitional provisions)
Common Equity Tier 1 (CET 1) capital	4,145	4,238	3,978	4,216
Additional Tier 1 (AT 1) capital	474	437	474	348
Tier 1 capital	**4,619**	**4,676**	**4,451**	**4,564**
Tier 2 (T2) capital	823	817	838	801
Own funds	**5,442**	**5,492**	**5,289**	**5,366**
Credit risk	15,568	15,568	15,038	15,038
Market risk	5,127	5,127	4,478	4,478
Operational risk	3,242	3,242	2,887	2,887
CVA risk	950	950	1,411	1,411
Risk-weighted assets	**24,886**	**24,886**	**23,813**	**23,813**
%				
Common Equity Tier 1 capital ratio	**16.7**	**17.0**	**16.7**	**17.7**
Tier 1 capital ratio	**18.6**	**18.8**	**18.7**	**19.2**
Total capital ratio	**21.9**	**22.1**	**22.2**	**22.5**

Liquidity and refinancing

The liquidity management requirements set out in the Minimum Requirements for Risk Management (*Mindestanforderungen an das Risikomanagement* – MaRisk) were fully satisfied throughout 2017. The requirements of the German Liquidity Regulation (*Liquiditätsverordnung*) were likewise complied with during the year. The Deka Group's liquidity coverage ratio (LCR) increased to 152.5% at the end of 2017 (2016: 124.4%). Details about the Deka Group's liquidity position, including the liquidity coverage ratio, can be found in the risk report.

Refinancing is carried out in a diversified manner using conventional domestic and international money market and capital market instruments. This includes issues of public sector and mortgage *Pfandbriefe*, short-term bearer bonds based on the commercial paper (CP) programme, and medium to long-term bearer bonds based on the debt issuance programme and the programmes for structured issues and certificates. DekaBank also uses the repo and lending markets, call money and time deposits to raise and invest liquidity. Refinancing activities are supplemented by active market-making for own issues.

Human resources report

The total number of employees rose slightly during the reporting year to 4,649 (2016: 4,556). The increase in staff numbers was associated *inter alia* with the expansion of Digital Multichannel Management and the IT corporate centre, the increase in asset servicing activities and the implementation of regulatory projects. The number of employees is determined by counting the number of employment contracts (temporary and permanent) in existence at the reporting date, including inactive employees, trainees and interns.

The number of earnings-relevant full-time equivalents increased by 2.2% compared with the end of 2016, to 4,077.6. The total includes part-time employees actively involved in work processes in the Deka Group, who are counted *pro rata* on the basis of their working hours.

At the year-end, 79.7% of the workforce were employed in full-time posts. The average age of active employees (excluding apprentices and inactive staff members) was 43.8 years (previous year: 43.3 years).

The highlights of HR work included assisting the digitalisation of the Deka Group with a focus on the transformation into a more agile working world. Opportunities were provided to employees in various formats to intelligently develop their technical, methodological and personal skills in line with the requirements of working in the world of Industry 4.0.

The Deka Group also promotes the career development of high-performing or high-potential staff through formats such as *Karriere@Deka* and Women's Mentoring. Particular attention is paid to women's career development. The Group has set binding rules for gender equality in its fourth Equality Plan and is endeavouring to provide better conditions for staff members with family obligations. The remuneration system is based on the requirements of market-rate compensation, fairness and transparency. The gender-neutral treatment of all employees is assured.

The report on equal treatment and equality of pay prescribed under part 4 of the German Transparency of Pay Act (*Entgelttransparenzgesetz* – EntgTranspG, sections 21-22) is mandatory for the first time this year. It does not form part of the Group management report and will be published together with the DekaBank management report for 2017 in the German Federal Gazette (*Bundesanzeiger*).

Forecast and opportunities report

Forecast report

Forward-looking statements

The Deka Group plans its future business development on the basis of assumptions that appear most probable from a current perspective. However, plans and statements about the course of business during 2018 are subject to uncertainties. Actual trends in the international capital, money and property markets or in the Deka Group's business divisions may diverge significantly from our assumptions, which are partly based on expert estimates.

The Deka Group's risk position is summarised in the risk report. If the risk scenarios referred to in the risk report should materialise, for example as a result of stress situations or counterparty default, this may result in negative differences from the forecast during the remaining months of the 2018 financial year. Conversely, opportunities may result in expectations being exceeded.

Expected macroeconomic trends

In DekaBank's view, the global economy is on the brink of a shift in monetary policy. Given the ongoing global economic recovery, the expansionary monetary policy pursued by central banks over the past decade is moving towards a close. The future performance of the equity markets will depend to a large extent on the form that this paradigm shift takes. If the transition is gentle, it can be assumed that the markets will continue to be bolstered by the upward trends in the economy and profits.

For 2018, moderate growth of around 3.7% and inflation of 3.1% are forecast for the global economy.

We expect gross domestic product in the eurozone to rise by 2.3%. The European economy will thus continue on a stable upward trajectory in 2018. Recovery ought to continue in Spain, Italy, Ireland, Portugal and Greece, contributing to consistent economic growth in the eurozone. Growth in heavily indebted Greece, however, will be sluggish. Owing to a forecast rise in market volatility, DekaBank's assumption for 2018 is that sentiment indicators in the eurozone cannot remain at the same high level as in 2017.