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.

For the US, DekaBank is reckoning on GDP growth of 2.5%, on account of positive business and macroeconomic performance. Growth prospects are thus estimated to be more favourable in the US than in the eurozone. A fundamental change in the direction of monetary policy is not anticipated. The reforms to income tax and corporate taxation brought in at the end of last year may already have an impact on the market in 2018.

In the emerging nations, DekaBank is forecasting economic growth of approximately 5%. Inflation rates will, with a few exceptions, remain low in the coming year, making a tightening of monetary policy unnecessary. In China, substantial changes in the direction of economic policy are not expected in 2018. Nevertheless, the focus on qualitative targets means that growth is likely to lag behind the high rate achieved last year. DekaBank expects the slackening of Chinese economic growth to be a gradual process.

We remain watchful with regard to the reform efforts in the southern eurozone countries and the exit of the United Kingdom from the European Union. It also remains to be seen whether the separatist movements in Spain will have a negative influence on capital investment. The North Korean nuclear weapons programme will continue to lead to regional tension, although Deka's view is that a military escalation is unlikely.

Expected trends in the capital markets

In DekaBank's view, inflation in the eurozone is unlikely to rise in 2018 from its current low level. Given this, the ECB will initially maintain its low-interest-rate policy and will not raise the deposit facility rate until at least mid-2019. A slight increase in money-market rates as a result of the bond purchasing programme, which has been extended for another nine months, albeit in scaled-back form is not to be expected until after next year. In the USA, by contrast, further interest rate hikes by the Fed should be assumed.

DekaBank anticipates only a slight increase in yields on the bond markets. Yields on short-dated German government bonds are likely to remain low, with moderate increases expected for the longer maturities. Yields on US Treasury bonds are also expected to rise slightly.

After significant rises in stock prices in 2017, which have already priced in forecasts of favourable performance in markets and profits, the markets may enter a temporary consolidation phase in 2018, with price corrections occurring accordingly. Investors could exploit this to increase exposure, such that demand for investment funds and savings plan products is expected to continue unabated even if a consolidation phase occurs. Over the medium-to-long term, DekaBank expects to see average stock price growth of between 3% and 5%.

Expected trends in the property markets

After comparatively hefty rent rises in 2017, growth in rental income is likely to slow down in Europe in 2018. Over the next five years, DekaBank expects to see above-average rent rises in the German centres of Berlin, Frankfurt/Main and Munich, as well as in Amsterdam, Oslo, Stockholm and Paris. Large amounts of new construction in the City of London are likely to increase vacancy rates in the British capital and temporarily depress rents. Apart from in London, however, we expect initial yields in Europe to decline only slightly. A rise in yields is only to be expected in the relatively long term, owing to the low-interest-rate environment.

DekaBank expects US rents to stagnate over the forecasting period in the majority of cases. Forecast rent growth is strongest in Atlanta, Seattle, downtown Manhattan and Chicago. The weakest performance is expected in Houston and Washington D.C. Moderate rises in initial yields are likely from 2019 onwards as a result of the cautious base rate increases.

In Asia, the particularly cyclical market of Singapore is likely to have the strongest growth potential in 2019, following on from a period of rental correction. Rental growth in Tokyo, on the other hand, is likely to ease after several years of above-average growth. In Australia, DekaBank expects the strong growth in rents in Sydney and Melbourne to ease off in 2018, with slight increases in Brisbane and Perth. Yields are likely to drop again slightly.

Overall assessment of the economic trends

Overall, the Deka Group expects no significant changes to economic conditions from the 2017 financial year. The macroeconomic environment thus far appears robust in relation to the political and economic uncertainties. The surplus liquidity on the money market driven by ECB policy, and the low interest rates and yields, which are expected to remain low going forward, will continue to create some relatively challenging conditions for the Deka Group. It is to be expected that the liquidity surplus on the capital markets will continued to weigh upon profitability in the banking sector.

A shift in investor behaviour towards bonds, funds and shares is currently observable. Whether this trend will endure will depend chiefly on political factors and regulatory conditions.

Expected business development and profit performance

The Deka Group, as the *Wertpapierhaus* for the savings banks, will continue to focus on the savings banks as association partners. The DekaPro programme launched in 2018 contains significant strategic measures aimed especially at further anchoring customer-centricity in our business model and organisation.

The Group's 2018 economic result is expected to slightly exceed the figure for the year under review. The forecast economic result will thus ensure that DekaBank remains able to distribute profits and make the reinvestments necessary for the purposes of capital management.

A slight increase in total customer assets is forecast for 2018, on the basis of continued high net sales performance in retail and institutional business.

The Asset Management Securities business division anticipates highly positive net sales performance in both retail and institutional business, although, given regulatory changes under MiFID II and the German Investment Tax Reform Act, results are not expected to match the very high levels achieved in 2017. Having made further improvements to the product portfolio on the basis of the revision of the investment process in the previous year, we intend to build market share in the retail sector going forward. The focus will be on special products for multichannel sales. In institutional business, the focus is on continued expansion of the asset servicing platform, including for additional alternative investment solutions and absolute return products, for portfolios that satisfy regulatory requirements on balance sheet and liquidity management at the same time as earning income for institutional customers.

Risks exist *inter alia* in the form of political and macroeconomic impacts leading to falling stock prices and rising risk premiums, as well as in the form of rises in market interest rates due to expectations of higher inflation.

The Asset Management Real Estate business division aims to improve its net sales and its position in the market for institutional business in 2018. Products and services for both savings banks and other institutional customers in connection with the Deka Property Compass are to be further expanded. By further increasing the proportion of certified sustainable properties in our portfolio, we intend to win over a larger number of investors for whom sustainability and returns are criteria of equal importance. The division will keep to its proven quality and stability commitments.

Risks to future performance arise from fierce competition in the transaction markets, which makes transaction planning difficult. Depreciation risks also exist due to the prolonged boom in the property markets.

The Asset Management Services business division will continue to pursue its multichannel strategy and further expand the range of functions and tools for execution-only investing as well as for digitalised asset management in the "internet branch" of the savings banks. This extends to sales support measures, for instance in the form of chat and video communications. The Deka Group intends to cement the competitive position of its depositary business, both through growth in the Group's mutual funds and by obtaining third-party mandates.

Risks to future performance exist *inter alia* in increased pressure on margins for depositaries as well as in the possibility cost increases will arise due to a further tightening of the regulatory requirements for securities business in the retail segment.

The Capital Markets business division will focus more strongly on structured products and thus strengthen its positioning as a provider of products and solutions covering all aspects of customer needs and future regulatory requirements. Continued expansion is also planned of Infrastructure services aimed at simplifying access to the capital markets and of the division's function as a risk platform for the *Sparkassen-Finanzgruppe*.

Risks arise in particular from increased pressure on fees, notably in commission business, a drop in customer activity prompted by political events, and regulatory intervention in the definition of products, terms and conditions.

The Financing business division aims to increase new business in 2018 in its defined core segments. The planned expansion of the lending portfolio will serve as a basis for sustainable contributions to the division's results. Key to this are both the extension of our positioning as a quality leader and a broadening of the product offering in existing asset classes.

Risks include political crises, which could adversely affect the economic outlook for lending segments in which we operate. This could lead to a need for higher loan loss provisions, or to increased capital adequacy requirements as a result of a downgrading of our credit ratings.

Expected financial and risk position

The Deka Group expects to retain its sound financial position in 2018 and anticipates a slight rise in total balance sheet assets, due in part to an increase in lending volumes. Balance sheet management is already geared towards ensuring compliance with the minimum 3.0% leverage ratio that is expected to apply in 2019.

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

The fully loaded Common Equity Tier 1 capital ratio will drop during 2018, in line with the planned increase in the volume of specialised finance and property finance. However, it will remain above 13%. There has been a moderate increase in Tier 1 capital as a result of the retention of part of the annual profit for 2017.

In October 2017, the European Banking Authority (EBA) presented a prudential interpretation on the own funds requirements for guarantees on investments in investment funds. The interpretation proposes regulations which, if applied in the proposed or similar form to all guarantee funds and guaranteed fund savings plans, including state-subsidised German private pension plans, could have material impacts on the Deka Group's regulatory capital ratios and its leverage ratio. Industry-wide, they could also have an adverse impact on the range of such products available on the market.

Although a moderate increase is planned in risk capacity usage, it will remain at a non-critical level. The increase will result chiefly from the planned rise in the level of new business in the Financing business division.

Performance of key ratios in the Deka Group *(Fig. 17)*

		31 Dec 2017	Forecast 2018
Economic result	€m	448.9	Slight increase
Total customer assets	€bn	282.9	Slight increase
Net sales	€bn	25.7	Slight decrease
Common Equity Tier 1 capital ratio (fully loaded)	%	16.7	Over 13%
Utilisation of risk capacity	%	34.4	Moderate increase

Opportunities report

Opportunity management

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

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

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

Current opportunities

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

It is thus possible that, contrary to expectations, a substantial rise in index levels could lead to strong growth in total customer assets and have a positive impact on net commission income. The gradual shift away from low interest-rate policies and the oversupply of liquidity to the markets by central banks, which has already tentatively begun in the year under review, could also happen faster than expected in a positive macroeconomic scenario. The resulting increase in yields at the long end, associated with a steepening yield curve, could improve the conditions for investing own funds and managing liquidity.

A favourable macroeconomic scenario such as this would improve general conditions, most notably for securities- and property-related asset management and capital market activities. This scenario is seen as rather unlikely, however.

Opportunities on the market could also be generated by an even stronger shift towards funds for financial savings. However, the Deka Group anticipates that this process will continue to take place only gradually. Nonetheless, if the popularity of funds and certificates should increase, due not least to effective multichannel marketing, this would have a beneficial impact on net sales performance and total customer assets.

Strategic and other opportunities arise in connection with the consistent implementation of the new DekaPro programme. However, the resultant effects have already been incorporated into the planning for 2018, and any further positive impacts on the Deka Group's business and results are therefore unlikely.