

Group management report

At a glance

In the year of its centenary, DekaBank, the *Wertpapierhaus* for the savings banks, can look back on a successful financial year in 2017. The Deka Group's economic result of €448.9m was 8.1% higher than the previous year's figure, with improved net commission income playing a substantial role.

The growth trend in securities business is continuing. Record net sales of €25.7bn, together with encouraging capital growth in our securities and real estate funds, caused total customer assets to rise to €282.9bn.

The D18 programme for the implementation of the *Wertpapierhaus* strategy, which we began in 2013, has made a considerable contribution not only to the sustainable turnaround of retail and institutional sales but also to the increase in demand for advisory and infrastructure services. By carrying out measures to boost sales in the savings banks and in online securities business, as well as to improve the quality of our products and services, Deka has carved out a strong position within the competitive field. This is reflected in the receipt of numerous accolades, such as our first-ever overall victory in Capital magazine's "Fonds-Kompass" awards.

The conclusion of the D18 programme at the end of 2017 was followed by the start of the successor programme, "DekaPro", in January this year. DekaPro takes up some of the themes of D18 and aims to continue the roll-out of our *Wertpapierhaus* strategy with an even stronger customer focus. The intention is to realise growth potential in our business with savings banks, savings bank customers and institutional investors. The programme also covers the optimisation of business processes, so that we can handle the higher volumes of business we are aiming for more efficiently and respond proactively to the opportunities and challenges created by regulatory change.

The success of the measures carried out in 2017 has enabled the Deka Group to create significant added value for the savings bank association. Other key ratios as at the end of 2017 underline the strong foundations of the *Wertpapierhaus*. These include a Common Equity Tier 1 capital ratio (fully loaded) of 16.7%, a leverage ratio (fully loaded) of 4.7% and a liquidity coverage ratio of 152.5%, well above the minimum requirements, as well as moderate risk capacity utilisation of 34.4% (based on overall risk-bearing capacity).

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Deka Group profile and strategy

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

Legal structure and corporate governance

DekaBank Deutsche Girozentrale is a German federal institution incorporated under public law with registered offices in Frankfurt am Main and Berlin. It is wholly owned by the German savings banks. 50%

of the shares are held via Deka Erwerbsgesellschaft mbH & Co. KG. The savings banks hold their interests via this company, which is owned by their regional savings bank and giro associations. The other 50% of the shares are held by the *Deutsche Sparkassen- und Giroverband* (DSGV).

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

Divisional structure

The Deka Group reorganised its divisional structure with effect from the start of 2017. This led to enhanced governance and an even clearer separation at board level between banking business and asset management.

The two asset management business divisions, Asset Management Securities and Asset Management Real Estate, mainly focus on fund-based products and services. The Asset Management Services business division, which came into being at the start of 2017, focuses on providing banking services for asset management. Banking business is handled by the Capital Markets and Financing business divisions.

Corporate governance

DekaBank is managed collectively by the Board of Management, which continued to comprise five members as at the 2017 reporting date. Their specific areas of responsibility were reorganised as from the start of 2017 in line with the new five-division structure. Responsibilities as at the end of 2017 were thus as follows:

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

Responsibility for Human Resources & Organisation was transferred from Martin K. Müller to Michael Rüdiger as from 1 January 2018.

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

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

Sustainable governance and non-financial statement

The Deka Group's sustainable governance is based on the strategic orientation of the savings banks. This provides the foundations for the ongoing development of the sustainability strategy, which has been in force since 2009 and was integrated into the business strategy at the end of October 2014. The same applies for the Code of Ethics, which was updated in October 2017 and now sets new areas of focus, emphasising the specific role model function of leaders and the growing significance of a sustainable product and service portfolio. The code establishes a binding framework to guide the actions of our employees. The Code of Ethics is also the basis for a corporate culture within the Deka Group that complies with the law, is

open and transparent and focuses on added value. This is reflected in the code's core values of professionalism, responsibility, trust, collegiality, sustainability, diversity, communication and consistency.

The annual sustainability report provides detailed information on the sustainable management of the Deka Group. For the first time, this year's report includes the Deka Group's non-financial statement pursuant to the German CSR Directive Implementation Act (*CSR-Richtlinie-Umsetzungsgesetz*). The declaration sets out, in particular, targets, measures and due diligence processes for the environmental, social and employee concerns that are significant to the Group's business model, as well as for the upholding of human rights and the combating of bribery and corruption. As a result of a stakeholder survey carried out annually since 2015, sustainability reporting will henceforth place greater emphasis on "Sustainable products" and "Sustainable corporate governance".



See also:
[www.deka.de/
deka-group/
sustainability](http://www.deka.de/deka-group/sustainability)

The annual sustainability report including the non-financial statement does not form part of the Group management report. In accordance with the statutory publication deadlines under section 325 of the German Commercial Code (*Handelsgesetzbuch – HGB*), it is published by the end of April each year on the Deka Group website (www.deka.de/deka-gruppe/nachhaltigkeit), where it will remain accessible for at least ten years.

Business model

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

The Deka Group's offering focuses on the requirements of the savings banks and their customers. Individual customers, high net worth private clients and – closely related to these – commercial and corporate customers of the savings banks constitute an important target group in this regard. The Deka Group also supports institutional customers – apart from the savings banks, these include insurers, pension funds, foundations, companies in various industries and the German public sector.

In addition to asset management activities in the narrower sense, the Deka Group also provides the execution of securities trading, custody accounts, asset servicing and depositary services. The range of advisory and other services for asset management purposes, which can be used by savings banks and other institutional customers, includes the bank's role as a liquidity and collateral platform, its securities lending services, support with the purchasing and settlement of securities and derivatives, and assistance with regulatory matters. The Deka Group also offers related supplementary services, such as the provision of market analyses, infrastructure services and market conformity tests.

In securities funds and real estate funds, the Deka Group primarily earns commission income in the form of management and transaction fees. Subject to regulatory requirements, some of this income is passed on as an "association payment" to the savings banks in their capacity as sales partners. Additional commission income is generated from banking transactions, including capital market activities. Interest income is obtained primarily from specialised financing and real estate finance, as well as from the Capital Markets business division and Treasury operations.

Deka Group strategy

Strategic objectives

The Deka Group's strategy as the *Wertpapierhaus* for the savings banks is geared towards:

- helping savings banks to grow their securities business via all sales channels with personal customers in various wealth and income brackets, and thus contributing towards cementing the significant role that the savings banks play in helping German households build capital, as well as
- helping institutional customers in Germany and abroad, including the savings banks, to achieve their business objectives via customised products and advisory and infrastructure services in the challenging market and regulatory environment.

The Deka Group thus regards itself as an organisation which is geared towards customer utility at every level in every field, and which focuses on responding to changing customer needs via agile processes for the evolution of investment products and banking services. This promise of performance is backed up by the strengths of an integrated business model that is founded on both asset management and banking.

In order to further embed our customer-centred outlook in our business model and the organisation as a whole, we began the DekaPro programme at the start of 2018. DekaPro is a package of key measures for the continued implementation of the *Wertpapierhaus* strategy – it drives forward innovation and prioritises resources. The overall approach is closely linked to growth targets for each customer segment as well as to process and cost-effectiveness targets. These targets also cover areas such as coping with regulatory burdens and digitalising IT while simultaneously reducing complexity. DekaPro follows on from the D18 transformation programme, which contained the initiatives that have formed DekaBank into the *Wertpapierhaus* for the savings banks over the past few years. D18 was successfully brought to a close at the end of 2017.

Strategic measures

Strategic measures aim to manage growth while maintaining a customer-centred outlook, as well as to improve value creation processes and cost structures. Thanks to the consistent implementation of D18, the Deka Group has already carved out a good starting position in its core operating areas over the past few years.

Exploiting potential in retail business

In retail business, too, the Deka Group follows a customer-centred approach geared towards individual needs and the personal wealth and income of savings bank customers. In the year under review, demand for investment fund savings plans and pension products increased. Another focus area was structured capital investment products for individual customers and investment products for the personal and business assets of private banking and corporate customers. In the certificates business, DekaBank has successfully positioned itself as a quality provider. Tribute to this achievement came in the form of two further awards for best primary market issuer, which we received from Scope Analysis in November 2017 and at the 2017 Zertifikate Awards.

Our ongoing dialogue with the savings banks has been further enhanced, particularly via the DekaNet B2B platform. The platform provides training in a variety of formats to savings bank advisory staff and DekaBank sales directors and managers on new product developments and regulatory challenges in the investment and advisory process. DekaBank works continuously with savings bank associations and the banks themselves to improve the investment and advisory process in line with customer service and best practice.

We have also substantially expanded the assistance we provide for savings banks with their online securities business. The focus is on providing integrated solutions for multichannel sales which link together everything from marketing to online account opening. As of the end of 2017, many savings banks have already incorporated the available online services into their internet banking offerings as a result. As well as the investment finder, a complete online securities trading process is available to the savings banks, so that customers never have to switch to an alternative communication channel. DekaBank's subsidiary bevestor GmbH has developed a first digital asset management solution, which was rolled out in 2017 in the course

of the Family and Friends Phase. The full takeover of S Broker, which took place in 2016, also represented an important step towards the modular implementation of our custody account strategy. S Broker's product range has a broad spectrum of products and services that meet the demands of online brokerage customers.

The DekaPro measures for the retail segment aim to help savings banks to exploit potential and thus continue expanding their securities business. One important aspect of this is to streamline the interaction of the savings banks' branch-based approach with multichannel banking. The intention is to mould the solutions we offer more closely to individual customer segments, based on an analysis of customer needs. In building up online securities business and expanding the associated product packages, we will take account of the needs of execution-only customers and those of the savings banks' multi-channel customers. Access to the services and to the information customers need to make their investment decisions is to be simplified at the same time.

Growth in institutional customer business

During 2017, we again substantially expanded our services for institutional customers within and outside the *Sparkassen-Finanzgruppe* under the *Deka Institutionell* sales brand. In addition to the savings banks themselves, our focus was primarily on pension schemes, insurance companies, non-profit organisations, family offices, foundations and municipalities. Sales cooperation activities with the savings banks were substantially increased to this end.

Individual products from the asset management and banking businesses have been embedded in a holistic advisory approach. The product and service range for the proprietary trading of the savings banks and other institutional investors has been expanded to include additional investment products that add alternative investments to the investment mix in order to boost returns. The Deka Alternative Investments (DALI) platform was expanded to include new fixed-lifetime funds for higher-yield bonds. In addition, a series of bond funds managed using a quantitative factor-based approach was set up. During the year, Deka Investment GmbH was ranked for the first time as Best Master KVG in the customer satisfaction survey carried out by the rating agency Telos.

On the banking side, services were expanded in particular with regard to structured certificates and infrastructure services for the management of *Depot A*, i.e. the proprietary trading portfolios of savings banks. The new Deka Easy Access (DEA) tool enables savings bank treasurers to carry out analysis, management and trading on a single platform. In addition, a revised, more standardised outsourcing model is now available for the market conformity check required by the regulator, which is also attractive for institutions with small business volumes. In the lending business, services were expanded in connection with the structuring of project finance.

The new measures that have been introduced with DekaPro aim to significantly increase market share with institutional investors outside the savings bank sector, while cementing our position as the first-choice partner for the savings banks. Step one will be to hone the requirements profiles for all five business divisions and institutional sales, based on an analysis of customer needs within the target segments. The core initiatives introduced previously under D18 will be continued, with an approach that is customer-centred and closely geared to regulatory requirements. This will involve, for instance, the further development of Solvency II-compliant portfolios for insurance companies and *Depot A* (proprietary trading) portfolios for savings banks that comply with LCR rules. The range of platform solutions such as Deka Easy Access will also be enhanced.

Process optimisation

The reduction of complexity – including through automation and organisational streamlining – will remain a focus area for the Deka Group under DekaPro. The aim is to be able to handle a higher volume of business with a stable level of resources. Optimising the product and service portfolio will play a role in achieving these economies of scale. It is also important to implement regulatory requirements at reasonable cost.

The Deka Group adjusted the business profiles of its subsidiaries during the year. This mainly concerned the strategic development of DekaBank Deutsche Girozentrale Luxembourg S.A., which is to be converted into a branch of DekaBank in order to further integrate our operations in Luxembourg and Frankfurt/Main. In addition, our Milan and Vienna offices were closed during the year and the Tokyo office is set to be closed down in 2018. The London office is meanwhile to be upgraded to branch status.

Digital transformation

Digital transformation will continue to be a focus area for the Deka Group's operations. The aim is to achieve a further customer-centred evolution of the business model, as well as continuous process optimisation. The ultimate goal is to increase customer utility in the retail and institutional segments through standardised digital processes and the use of new technology. Digital transformation thus complements our digital multichannel management activities, which are aimed at digitalising our interactions with customers.

Awards

Quality of products and advice is fundamental to the joint success of the Deka Group and savings banks in securities business, and is key to the Deka Group's positioning as the *Wertpapierhaus* for the savings banks. Various awards provide further testimony to the excellence of its products.

Deka Investment was chosen as "Fund Manager of the Year" for the first time in 2018, scoring highly for having the best product range of Germany's major fund providers. Achieving first place in the overall ratings is confirmation of the consistent good service provided by Deka's fund management, which also contributed to our overall victory in Capital magazine's "Fonds-Kompass" awards last year. The award was granted by the publisher, Finanzen Verlag. Shortly afterwards, *Capital-Fonds-Kompass* issued its 2018 quality rating for Deka, again awarding the maximum five-star rating to Deka Investment. Deka is one of only four firms to receive the maximum rating in the past year.

In addition, thirteen Deka funds were honoured at the EuroFund Awards, ten of them taking first place in their category.

At the Scope Investment Awards 2018, *Deka-Nachhaltigkeit Renten* (Deka Sustainable Bonds) was the winner in the "Bonds EUR" class, while *Mainfranken Strategiekonzept* (Mainfranken Strategy Concept) won in the "Balanced Global Flexible" class.

At the Scope Alternative Investment Awards, Deka Immobilien was honoured as Best Asset Manager in the Retail Real Estate Europe category. The Scope award was a tribute to Deka Immobilien's skill in asset management, which has been visible especially in the ongoing quality increases in the *Deka-ImmobilienEuropa* and *WestInvest InterSelect* funds.

DekaBank was also chosen as best provider in the Primary Market and Certificate of the Year categories in awards granted by the website *Der Zertifikateberater* ("Certificate Adviser") in conjunction with n-tv, the Frankfurt Stock Exchange and the Stuttgart Stock Exchange. As in the previous year, voting for "Certificate Issuer of the Year" was extremely tight, with Deka taking second place in this category for the third year in succession.

Ongoing development of the sustainability strategy

In recent years, the Deka Group has grown to be one of the highest-rated banks in the field of sustainability.

When putting into practice sustainable corporate governance, the Deka Group acts in the interests of

- its customers – with superior-quality products and services,
- its shareholders – by ensuring an attractive corporate value, sustainable dividend performance and a conservative risk profile, and
- its staff – as a sought-after employer that provides a high level of employee satisfaction.

In doing so, it respects the regulatory and social environment while imposing high ethical standards on itself and operates in a way that is economically, ecologically and socially sustainable. With this strategy, it creates a high level of transparency in its business model and puts an emphasis on benefits to society.

The Deka Group manages sustainability in a holistic manner, as a responsibility that cuts across all areas of the Bank. Alongside the recognition of national and international standards (UN Global Compact, Equator Principles and the German Sustainability Code), the continued improvement of the sustainable product and services portfolio is growing ever more important. During the year, the Deka Group also signed the Frankfurt Declaration. Signatories to the declaration, which is an initiative begun by Deutsche Börse AG, state their joint intention to create sustainable infrastructures in the financial sector.

With the German Federal Government's "Climate Protection 2050" plan in mind, the Deka Group plans to evaluate CO₂ emissions along the value chain for its entire business. Modular step-by-step plans are being developed on this basis with the objective of reducing the identified CO₂ emissions over the medium to long term in line with national and global climate targets.



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

The comprehensive approach to sustainability is being implemented across four areas of activity. Accompanying these activities with communication measures and presenting them in a transparent way (including in the annual sustainability report and in the sustainability section of the website (www.deka.de/deka-group/sustainability)) are key elements in responsible corporate governance.

Sustainable products: The Deka Group observes internationally recognised sustainability standards in its product development, thus responding to the growing social and environmental demands of institutional and private customers. Sustainability aspects are taken into consideration for securities- and property-based investment products, as well as in financing and proprietary investments. A Group-wide specialist team is responsible for creating customer- and investment-specific solutions. Its services include sustainability consulting, active portfolio management with a standard or individually customised sustainability filter and corporate governance. Within this framework, Deka upholds the interests and voting rights of its fund investors in accordance with the conduct of business rules set by the BVI (German Investment Funds Association) and takes an active role at the general meetings of investee companies.

Sustainable HR management: As a sought-after, responsible employer, the Deka Group attracts highly qualified staff with the aim of fostering their long-term loyalty to the company. The promotion of key qualifications through practical experience, proactive support for equal opportunities for women and men and an active healthcare management policy are thus provided as a matter of course. In order to underscore these ambitions, Deka made a commitment in 2017 to implement the UN Women's Empowerment Principles, which lay down principles for ensuring the equality of women at work.

Sustainable banking: The Deka Group is committed to minimising the impact of its business operations on the environment. In this respect, it acts in accordance with the relevant environmental regulations and operates a certified environmental management system (DIN EN ISO 14001:2015; energy audit under DIN EN 16247-1).

Corporate citizenship: The Deka Group promotes architecture, academia, music, sports, the arts and social projects. Either on its own or together with other entities in the *Sparkassen-Finanzgruppe*, it focuses on projects across Germany such as the International Highrise Award of the City of Frankfurt, the Dresden State Art Collections (*Staatliche Kunstsammlungen Dresden*), the German Olympic Sports Confederation and the Arche foundation in Frankfurt.

The Deka Group's services have been audited by leading national and international rating agencies specialising in sustainability, and have been awarded high ratings. As a result, rating agency Sustainalytics has now awarded the Deka Group its top rating of "Leader", and the Group is ranked 11th among all the banks rated by Sustainalytics worldwide.

Organisational structure

The Deka Group's activities are organised into five business divisions. Deka's asset management activities are handled by the Asset Management Securities and Asset Management Real Estate business divisions. The Group's banking business is covered by the Capital Markets and Financing business divisions. The fifth business division, Asset Management Services, focuses on providing banking services for asset management. The business divisions work closely with one another and with the sales departments and corporate centres. They form the basis for the Deka Group's segment reporting under IFRS 8.

Asset Management Securities business division

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

The product range comprises

- actively managed mutual securities funds following fundamental and quantitative strategies in all major asset classes, along with fund savings plans,
- products relating to fund-based asset management, including *Deka-Vermögenskonzept* (Deka Wealth Concept), funds of funds such as *Deka-BasisAnlage* (Deka Basic Investment), and fund-linked private and company pension products,
- special funds for traditional and alternative investments, advisory/management mandates and asset servicing offerings with an emphasis on master KVGs for institutional customers, and
- passively managed index funds (exchange-traded funds – ETFs).

The product range is supplemented by bespoke and standardised securities services, for which the division works closely with the Asset Management Services business division.

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

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

Asset Management Real Estate business division

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

Its services comprise the purchase, sale and management of real estate and all other services for real estate funds, as well as the growth-oriented development of marketable commercial properties in liquid markets, and active portfolio and risk management.

Products offered by the division include open-ended real estate mutual funds as well as special (i.e. private) funds with either an open-ended or closed-ended structure, single-investor real estate funds, real estate funds of funds, club deals in the form of open-ended property funds or limited investment partnerships, and credit funds that invest in real estate, infrastructure or vehicle financing.

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

Asset Management Services business division

The Asset Management Services business division provides banking services for asset management.

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

The Digital Multichannel Management subdivision develops and implements digital solutions for securities business in the “internet branch” of the savings banks, in line with the savings banks’ multichannel strategy. In the retail segment, it also takes legal responsibility for the management of DekaBank custody accounts. A multi-platform online securities offering, including stock exchange and securities information tools, is made available to the savings banks, using DekaNet as a centralised information and sales platform. S Broker tailors its offering to the needs of online execution-only customers and frequent traders via the DirektDepot and DepotPlus custody accounts. In addition, the S ComfortDepot, which takes legal charge of retail customer custody accounts (*Depot B*), is available on request to a large number of savings banks. The “bevestor” digital development platform produces innovative solutions for online securities business.

The division has set itself the objective of continuing to develop the digital channel into a persuasive offering for online securities investment, trading solutions and digital asset management and thus making an important contribution to maintaining the long-term stability of retail customer business. The depository business is to remain clearly positioned in the market and responsive to the rising trend in mutual funds, both among Deka Group investment managers and via third-party mandates.

Capital Markets business division

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

With its tailored range of services relating to securities repurchase transactions, securities lending and foreign exchange trading, the business division also acts as the central securities and collateral platform for the savings bank association. The division thus enables customers to carry out transactions in all asset classes. It serves as a centre of competence for trading and structuring capital market products as well as

for DekaBank's issuance business. It also offers clearing services to institutional customers, thus helping them to fulfil regulatory requirements efficiently.

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

- The Collateral Trading unit brings together securities lending products, securities repurchase transactions and customer-oriented currency trading.
- The Trading & Structuring unit is the Deka Group's centre of competence for trading and structuring capital market products in all asset classes, for both bond and certificate issues. The strategic investments section handles all Deka Group securities investments that do not form part of the liquidity reserve.
- The Commission Business unit executes trades in exchange-traded securities and derivatives on behalf of customers within and outside the Group.

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

Financing business division

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

The Specialised Financing subdivision concentrates on aircraft and ship financing (vehicle financing), energy, grid, utilities, transport and social infrastructure (infrastructure financing) and financing covered by export credit agencies. It also has a leading position in the funding of German savings banks across all maturity bands. The core portfolio is kept separate from the legacy portfolio, which contains loans that were made before the credit risk strategy was revised in 2010 and do not conform to the current strategy. The intention is to selectively extend the core portfolio, while reducing legacy business in a manner that safeguards assets.

The Real Estate Financing subdivision provides lending for commercial real estate. Lending is focused on marketable properties in the office, retail, hotel and logistics segments in liquid markets in Europe, North America and Asia/Pacific. The subdivision aims to expand new business in these segments and cement its position as a sought-after financing partner for the most important international real estate investors.

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

The division seeks to expand new business in its defined core segments and asset classes. In this way, it aims to cement its position as a quality leader in liquid markets. DekaBank continues to act in its role as a refinancing partner for the savings banks.

Sales

Savings Banks Sales & Marketing

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

In line with the general division of work between the Group and the banks, the Deka Group provides products and services for retail sales to the savings banks, while the saving banks approach their customers directly and provide customer advice and support. To assist the savings banks in their customer relations, the Deka Group's marketing activities are also aimed directly at end customers. The objective is to kindle active demand among end customers for the savings banks.

- The Sales Management, Marketing and Private Banking unit systematically analyses the needs of customers and savings banks as well as competitor and market developments. It uses its findings to develop forward-looking sales and marketing measures to support the savings banks.
- The Product and Market Management unit is responsible for all matters in relation to the funds, certificates and wealth management solutions on offer and in relation to private and occupational pension products, throughout the entire product life cycle.

To ensure nationwide support, Sales is divided into six sales regions in Germany. Sales directors maintain regular dialogue on markets and customers with the savings banks and associations. Deka also makes sales associates and other specialists available in Frankfurt/Main, who can assist savings banks with their local marketing and sales activities. They also provide training and coaching measures to help savings banks train their staff members in the securities business.

Institutional Customer Sales

The Institutional Customer Sales unit handles business both with savings banks and with professional clients and counterparties outside the savings bank sector (institutional investors). A focused internationalisation strategy is also being implemented. Customer advisers adopt a comprehensive approach that covers all products and services offered by the Deka Group across all business divisions. The unit acts as a solutions provider for its customers, bringing together the service range of all business divisions under one roof. During the year under review, the *Deka Institutionell* brand was revamped. This included positioning the brand so that it centres upon customers and their needs.

In the savings bank sector, the Institutional Customer Sales team is available to individual savings banks as a management partner, and develops immediately viable solutions for proprietary business (*Depot A*) and overall bank management. These solutions are based on comprehensive analyses of the earnings and risk situation and are supplemented with advice and support.

- The Institutional Customers – Savings Banks & Financial Institutions unit brings together all sales activities in proprietary business with savings banks and other banks. In addition, the unit develops methods and applications for interest rate book management and asset allocation for institutional customers. The comprehensive advisory approach also encompasses capital markets business for all customer groups.
- The Institutional Investors unit handles business with insurance firms, companies, public bodies, non-profit organisations and international investors. It also manages relationships with consultants.
- The Institutional Customer Sales Management unit is a cross-cutting function that provides support to customer relations staff with regard to product service, sales management and regulatory matters.

Corporate centres

The Treasury corporate centre acts as a resource manager for the Deka Group. As such, Treasury manages the Group's liquidity reserves, maintaining a clear focus on liquidity. It also assists the Board of Management with the management of guarantee risks from DekaBank funds and fund-related products, manages market price and counterparty risks in the banking book, manages group liquidity and Deka Group refinancing across all maturities, and is responsible for asset-liability management, including equity instruments. By setting transfer prices for the whole Group, Treasury helps to ensure both that the balance sheet is evenly structured and in line with strategy, and that transactions are managed and calculated on a source-specific basis. In its role as resource manager and in the associated control functions, Treasury provides services to help the business divisions achieve their targets. It can suggest measures to this end and also take control of risk management matters on their behalf if requested.

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

Non-core business

Non-core business comprises business activities which the Group no longer intends to pursue. This will be the last year in which non-core business is disclosed as a separate segment, as the managed winding-down of these activities while safeguarding assets is now largely complete. The remaining portfolios were transferred to the Capital Markets business division as of 1 January 2018.

Major companies and locations

The Deka Group's business is managed from the head office in Frankfurt/Main. The major investment management companies are also located there. WestInvest Gesellschaft für Investmentfonds mbH is based in Düsseldorf. LBB-INVEST has its headquarters in Berlin, while S Broker is based in Wiesbaden and S-Pensionsmanagement GmbH (DekaBank shareholding: 50%) in Cologne. DekaBank Deutsche Girozentrale Luxembourg S.A. in Luxembourg is the most important international subsidiary. The Deka Group also maintains companies or representative offices in London, New York, Paris, Singapore and Tokyo.

The Deka Group will restructure its Asset Management Securities business in the second quarter of 2018. All asset management products will henceforth be operated by Deka Vermögensmanagement GmbH (DVM), based in Frankfurt/Main. DVM will be the new name for LBB-Invest GmbH, which has been a wholly-owned subsidiary of DekaBank since 2014. Funds of funds, standardised fund-based asset management and discretionary asset management at the Deka Group will all be housed within DVM from the second quarter of 2018 onwards. DVM will also operate boutique funds making use of the expertise of specialist third-party asset managers.

Deka Investment GmbH will henceforth focus on the fundamental and quantitative management of public mutual funds, special funds, ETFs and asset servicing. Deka-managed equity and bond funds that are currently housed within LBB-INVEST will therefore be transferred to Deka Investment GmbH with effect from 1 April 2018.

Markets and influencing factors

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

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

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

The Deka Group's business divisions all have a strong position in their respective markets. With fund assets (according to the BVI, the German Investment Funds Association, as at 31 December 2017) of around €125.9bn and a market share of 13.5%, Deka is Germany's fourth-largest provider of mutual securities funds. In terms of mutual property funds, with fund assets (according to the BVI, as at 31 December 2017) of around €28.3bn and a market share of 31.7%, it occupies second place in Germany.

With issue volume once again rising significantly during the year, at the end of 2017 the Deka Group had reached a market share of 16.0% in the primary market for investment certificates and was thus ranked second in Germany. At the same time, Deka has established itself as the market leader in reverse convertible bonds and is the third-largest provider of express certificate structures.

Alongside its own issues, DekaBank is also a significant solutions provider and adviser on issues for customers. DekaBank is market leader in this regard in the segment for the financing of German federal states. The Bank also has a significant position in the repo and stock lending markets and is no. 2 in Europe in terms of trades settled on RepoClear.

Risk and profit management at the Deka Group

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

Financial performance indicators

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

The economic result is the key in-house management and performance indicator within the meaning of IFRS 8 and is based on the IFRS figures. In addition to total profit before tax, it includes movements in the revaluation reserve before tax as well as the interest rate and currency related measurement result from original lending and issuance business. The interest expense on Additional Tier 1 bonds, which is reported directly within equity (Additional Tier 1 capital), is also included in the economic result. Account is also taken of contingent future charges where the likelihood of occurrence is considered to be "possible" but for which a provision cannot be recorded under IFRS due to the lack of sufficient concrete evidence. The aim of the adjustments to the profit or loss before tax reported under IFRS is to reflect actual growth during the period under review.



See also:
Segment reporting, pages 112 ff.

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



See also:
Changes in regulatory capital (own funds): pages 51 ff.

The Common Equity Tier 1 capital ratio is used as a key performance indicator for assessing the adequacy of the Deka Group's own funds in line with regulatory requirements. It is therefore also of major importance for rating agencies' assessments of the Deka Group. The Common Equity Tier 1 capital ratio is defined as the ratio of Common Equity Tier 1 capital to risk-weighted assets (RWA) for all relevant credit, market and operational risk positions plus the credit value adjustment (CVA) risk. Risk-weighted assets are managed in line with the Deka Group's strategy, the targeted balance sheet structure and the capital market environment. In accordance with the provisions of the Capital Requirements Regulation (CRR) and the German act implementing the EU Capital Requirements Directive (CRD IV), capital ratios are reported both on a phase-in basis (i.e. applying the transitional provisions) and on a fully loaded basis (disregarding the transitional provisions). To supplement these, further regulatory key ratios are monitored, including the leverage ratio and liquidity coverage ratio (LCR).



See also:
Overall risk position in the 2017 financial year pages 74 ff.

A key risk management parameter is the utilisation of risk capital as allocated in the form of risk appetite, applying the liquidation approach. The monthly risk-bearing capacity analysis involves comparing the Deka Group's risk capital reserved for monitoring capital allocation, which can be used to cover losses, with total risk as determined across all risk types that have an impact on profit or loss. This makes it possible to establish whether total risk limits have been adhered to at Group and divisional level.

Non-financial performance indicators

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

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

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

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