

Group management report

At a glance

As the *Wertpapierhaus* for the savings banks, DekaBank was once again a strong partner within the *Sparkassen-Finanzgruppe* during 2016. In a challenging environment characterised by high levels of market volatility, low interest rates, growing political risks and the continuing high cost of regulatory measures, the integrated business model – a combination of asset management and banking services – proved its worth. Deka is in a stable position and in 2016 again provided the savings banks and their customers with high-quality products and solutions appropriate to the market environment, while at the same time investing further in the expansion of the *Wertpapierhaus*.

During the reporting period, the Deka Group achieved an economic result of €415.1m. As expected, this was below the previous year's very strong result. This was primarily due to specific provisions in relation to ship financing granted before 2010.

Total customer assets increased by an encouraging 7.0%, to €256.8bn. As well as continuing positive net sales performance, this also reflects the solid performance of the Bank's fund products.

The investments made in Deka's business model and the quality of its products are bearing fruit and once again led to numerous favourable appraisals of the Bank. Net sales performance also remains at a high level, thanks in particular to the successful expansion of institutional business.

Initiatives in digital multi-channel management have also advanced as planned. As part of this process, Deka acquired 100% of S Broker AG & Co. KG (S Broker) during the 2016 financial year.

With its strong capital and liquidity base, Deka is well-prepared for future requirements. This is evidenced by a Common Equity Tier 1 capital ratio (fully loaded) of 16.7% as at the year-end, a liquidity coverage ratio (LCR) of 124.4% – substantially above the minimum requirements – and a modest 35.2% utilisation of risk capacity (total risk-bearing capacity).

Information about the Deka Group

Deka Group profile and strategy

DekaBank is the *Wertpapierhaus* for the savings banks. Together with its subsidiaries, it makes up the Deka Group. Through its activities in asset management and banking business, it acts as a service provider for the investment, administration and management of assets and supports the savings banks and their customers throughout the entire securities-related investment and advisory process. In addition, it offers comprehensive advice and solutions to both the savings banks and institutional customers outside the *Sparkassen-Finanzgruppe* on their investment, liquidity, funding and risk management requirements.

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 have pooled their shares in this company via the regional savings banks and giro associations affiliated with them. 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 boards' and committees' responsibilities are clearly defined and enables efficient decision-making processes. As a member of the *Sparkassen-Finanzgruppe* (Savings Banks Association), DekaBank is committed to the principles of subsidiarity and a focus on the greater good.

These principles form the basis of its code of ethics, which provides binding guidelines for the actions of corporate bodies and employees. It represents the basic structure for a corporate culture within the Deka Group that complies with the law and is open, transparent and value-oriented.

DekaBank is jointly managed by the Board of Management, which comprised five members as at the 2016 reporting date, with their respective Board responsibilities remaining unchanged. During the second half of 2016, the Administrative Board extended the appointments of CEO Michael Rüdiger and Deputy CEO Dr. Georg Stocker for a further five years, until 2022.

In 2016, the business activities of the Deka Group were split between the four business divisions Securities, Real Estate, Capital Markets and Financing. Strategically, the Group relies on an integrated business model of products and services, both in traditional banking business and in asset management. In order to successfully implement this strategy in a forward-looking manner, and to avoid potential conflicts of interest, in December 2016, the Deka Group adopted a plan for a new split between its business activities, which has been in effect since 1 January 2017.

A key element of the reorganisation is the even clearer separation between leadership of the banking business and asset management. The new allocation of business activities involved further development to the way the business divisions are structured.

From 2017 onwards, the Deka Group's activities are organised into five business divisions:

The Asset Management Securities business division will continue to focus predominantly on securities fund business. Depository and custodial services (including S Broker) are assigned to a new business division, Asset Management Services.

Going forward, the Asset Management Real Estate business division will handle only property fund business. Property financing has been transferred to the Financing business division.

The Capital Markets business division remains unchanged.

From 2017, the Financing business division comprises Specialised Financing (savings banks, infrastructure and transport asset finance, export finance backed by export credit agencies (ECAs)) and Property Financing.

The new business division Asset Management Services essentially combines digital multi-channel management (including depository business) and custodial services.

At departmental level, the following lines of responsibility will be in place:

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

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 benefits from their market proximity and expertise 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 formed the General and Nomination Committee, the Audit and Risk Committee, the Remuneration Supervision Committee and the Credit Committee. The German Federal Minister of Finance is responsible for general governmental supervision.

Business model

The business model of the Deka Group is characterised by close collaboration between asset management and banking business. As asset management products, the Deka Group provides securities funds, property funds, credit funds and certificates, together with the associated asset management services for private and institutional investors. As part of this, it supports the investment funds in asset management business and supports institutional customers in their asset management, as well as capital, liquidity and risk management. In this regard, the Deka Group acts as finance provider, issuer, structurer, trustee, asset servicing provider and custodian.

The Deka Group's offering focuses firstly on the requirements of the savings banks and their customers. In this regard, individual customers and high net worth private clients as well as – closely related to these – commercial and corporate customers of the savings banks constitute a particularly important target group. Secondly, the Deka Group supports institutional customers which, besides the savings banks, include insurance companies, pension funds, foundations, companies from various sectors and the domestic public sector.

In addition to asset management activities in the narrower sense, the Deka Group also provides the transaction of securities business, securities accounts, asset servicing and custodial 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 function as a liquidity and collateral platform, its securities lending offering and support for the procurement and settlement of securities and financial derivatives and in regulatory matters. The Deka Group also offers related supplementary services, such as the provision of market analyses, infrastructure services and market conformity checks.

In business involving securities funds and real estate funds, the Deka Group primarily earns commission income from management and transaction fees, some of which is passed on to the savings banks in their capacity as sales partners in the form of payments to the alliance partners, taking into account regulatory requirements. Additional commission income is generated from banking transactions, including capital market activities. Interest income is mainly derived from real estate, transport and infrastructure financing, as well as from the refinancing of the savings banks, the Capital Markets business division and treasury activities.

Deka Group strategy

Strategic objectives

As the *Wertpapierhaus*, the Deka Group's strategy is geared to supporting the savings banks in a competitive environment on a sustained basis and consolidating its important role in helping German households to build up their assets. To this end, the Deka Group makes use of synergies between asset management and banking business and continues to develop its comprehensive range of investment and asset management solutions on an ongoing basis, modelling these on the requirements of the savings banks and their customers.

In retail business, the Deka Group aims to encourage more people to invest in securities and hence to promote a securities culture in Germany overall, working in close cooperation with the savings banks and the DSGV. The intention is to open up opportunities for customers, by means of simple and easy-to-understand products, to generate appropriate returns on their investments and to safeguard their futures, even in times of low interest rates. In doing so, the different needs of customers, depending on their circumstances with regard to income and assets, are fully taken into account through customised product offerings and ranges of solutions.

Business with institutional customers is built on two pillars, with particular emphasis placed on business with the savings banks. In co-ordination with the savings banks at the local level, Deka also aims to boost business with third-party institutional customers substantially. There is also a focus on leveraging additional sales and earnings potential and on offering new products and services. In this context, the aim is to further strengthen the role the Deka Group plays as a central securities and collateral platform and to meet the demanding regulatory requirements using existing processes. With regard to the savings banks' own investments, the Deka Group intends to secure its leading position by expanding its advisory and solution offering. The intention is also to further expand its market position with institutional customers outside the *Sparkassen-Finanzgruppe*.

The Deka Group wants to continue to generate significant added value for its shareholders in future. Managing its high-performance asset management and bank platform will ensure an appropriate risk/return ratio for the long term. At the same time, value-oriented growth coupled with the efficient use of equity is also aimed at securing an ambitious target rating, which is of vital importance to the Deka Group's business model.

The objectives of the sales department, the business divisions and the corporate centres are derived from the Deka Group's strategic targets.

Strategic measures

As the *Wertpapierhaus*, Deka supports the savings banks' securities-related retail business, their asset/liability management and asset management for other institutional customers through comprehensive, advice-oriented sales approaches and solution-based investment concepts. To do so, it draws on the strengths of its integrated business model in a targeted manner, with products and services in both traditional banking business and in asset management.

Support for savings banks in retail business

Deka offers comprehensive services to support the investment and advisory process at the savings banks. This is not limited to procedural support but rather includes offering the savings banks systematic sales support on site. For this purpose, extensive investment has been made in Deka's external sales force.

Deka's strategic focus is on the growth measures for the savings banks' securities business that were adopted as part of the DSGV project "Sales strategy of the future". Key components include the new customer segmentation established at each of the savings banks, the networked multi-channel approach, needs-based advisory processes, product and service offerings that are tailored to their target groups, and a personalised, proactive approach to customers. In addition, Deka offers a differentiated range of services, from simple and cost-efficient solutions for regular wealth creation by retail customers, to securities investments with small investment amounts and the provision of tailored support services for the individual customer segment.

For the savings banks' private banking customer segment, Deka provides differentiated investment strategies and solutions for structuring assets. In addition, it also provides on-site support to the private banking units of the savings banks. Savings banks can thus draw upon solutions and advisory support from Deka for their wealthy private clients by means of a special cooperation model, even if they do not have their own private banking units. Due to numerous overlaps between the private and business assets of high net worth individuals, Deka has combined both of these in the Private Banking unit, and supports the savings banks in private and business financial management for high net worth individuals from a single source.

Support for savings banks in online securities business

Deka's initiatives in digital multi-channel management are closely linked to the DSGV sales strategy of the future. The objective is to provide savings bank customers access to Deka's attractive securities offering via online channels as well, and in this way to dovetail the proven investment and advisory process at branches with digital sales, which are integrated into high-quality information on topics related to stock markets and securities. This expansion of the savings banks' multi-channel offering opens up additional opportunities for savings bank advisers to interact with their customers.

To this end, Deka has developed a solution for online securities business. The intention is for this white label offering to be seamlessly integrated into the websites of the respective savings banks. Users find suitable investments easily using a self-analysis and advisory tool, and can open a securities account online and sign up for products directly – or can use the branch's advisory services for this.

Another important step in strengthening online securities expertise within the Deka Group is the connection with S Broker AG & Co. KG ("S Broker"), the online broker of the *Sparkassen Finanzgruppe*. With effect from 30 June 2016, Deka acquired the outstanding 69.4% limited partner shares in S Broker AG & Co. KG and can now apply this company's digital securities expertise to its own online securities business. S Broker will also continue to market its range of products and services under its own name in the future. Measures in relation to sales cooperation and technical integration are currently being implemented. S Broker is also important to the modular implementation of the portfolio strategy, since it already serves as the portfolio manager for numerous clients of the savings banks who either make their own investment decisions or are advisory clients.

Moreover, with the establishment in June 2016 of bevestor GmbH, in which DekaBank holds all shares, there is now an independent development platform available for digital offerings of the future. The objective of this development platform is to enable digital offerings to be developed more rapidly and with greater flexibility. bevestor is currently testing the platform and will make it available to the savings banks in multi-channel business once it has reached the appropriate level of maturity. The investment portfolios with dynamic stop-loss limits that will in future be available on the online platform are already based on an idea that was developed by bevestor GmbH. Employees of Deka's former Digitalisation Management group have been employed by bevestor GmbH since 1 August 2016.

Enhancement of the investment process

During the reporting year, Deka launched an initiative to further enhance its investment process. The overarching objective is to establish an investment process that is systematic and interlinked as a whole, using all available skills and resources. The findings will contribute to setting the framework for the respective strategy types, whilst safeguarding the degree of freedom afforded to portfolio managers beyond the fundamental direction set. The aim is to steer the process in a manner that is risk-focused and optimises earnings, in order to be able to identify any market potential – currently limited in the low interest-rate environment – as early as possible. In doing so, the interests of customers remain paramount when managing funds and mandates on a discretionary basis. Comprehensive investment advice can also be incorporated. The interplay between strategic direction and tactical management should ensure both an attractive risk-return profile and a rapid response to market developments.

During the reporting year the management of asset management concepts and the administration of asset management funds were relocated to an independent division of Deka Investment GmbH and combined with the main multi-asset funds unit.

During the reporting year, optimisation of equity and bond products as well as the growth of multi asset funds were once again at the heart of product strategy. To this end, the focus was on specific themes. For example, newly established bond funds with a focus on high-yield bonds enable investors to participate in an attractive bond segment. With its new US dollar-denominated open-ended mutual property fund with an investment focus on North America, Deka offers savings bank customers access to the attractive property markets of this region. The launch of the Deka-Industrie 4.0 fund allows investors to benefit from the growth opportunities of the fourth industrial revolution. Deka's flagship product *Deka-Vermögenskonzept* (Deka Wealth Concept) was similarly enhanced over the past year. Taken together with *Deka-BasisAnlage* (Deka Basic Investment), this means that once again optimised products are available in the retail segment for regular saving through securities investments. For certificates issued by DekaBank's Capital Markets business division, as in the previous year, the emphasis was on equity-based structures, in particular 'express' certificate structures and reverse convertible bonds.

Awards

In the 2016 "Fonds Kompass" awards run by *Capital* business magazine, FERI EuroRating Services and Tetralog Systems, Deka was ranked top among the major German providers in the category of fund quality. In addition, it received the best possible rating for quality and management continuity, as well as for its fund product range and customer service. Overall, Deka achieved its best result yet, scoring 86.1 out of a total 100 possible points, and for the fourth time in a row received the highest possible rating of five stars.

At the FERI EuroRating Awards, Deka was once again named as the best issuer in the category "Certificate issuers: primary market". At the 2016 Zertifikate Awards ("Certificate Awards") awarded by the specialist publication *Der Zertifikateberater* ("The Certificate Advisor"), Deka also took first place in the categories "Primary market" and "Certificate House of the Year".

The Deka Group's securities funds also performed strongly in benchmarking tests. At the FERI EuroRating Awards, the fund *Deka-Nachhaltigkeit Renten* (CF) A was chosen as the best fund in the "Bonds EUR" category. Alongside quantitative considerations, qualitative aspects of the fund management were also crucial to this decision.

Deka Immobilien GmbH secured victory at the 2017 Scope European Fund Awards in the category "Best asset manager – global real estate funds for retail investors", with the jury drawing particular attention to its special international management expertise, along with the expansion of the global product range. For the seventh time in succession, the open-ended property fund *Deka-ImmobilienGlobal* won recognition as the best globally-investing fund for private investors.

Growth strategy in institutional business

Offerings for institutional customers are combined under the *Deka Institutionell* brand. Following significant expansion of products and advisory services in the previous year to take into account changing customer and regulatory requirements, in 2016 an expansion of the business began. Building on the very high penetration of the *Sparkassen-Finanzgruppe*, pension schemes, insurance companies, non-profit organisations, family offices and foundations were specifically targeted both within and outside the public sector.

To this end, Deka Institutionell is working closely with the savings banks, which could put forward supplementary offerings from Deka that are not offered by the savings banks themselves to their existing and new institutional customers. This is accompanied by rigorous brand positioning and active marketing. A broader market presence allows economies of scale to be leveraged and limits regulatory costs for individual customers.

Capital market and credit solutions as well as quantitative securities concepts or advisory services such as fiduciary management are available to customers. In addition, Deka developed further investment products during the reporting year, combining selected alternative investments to enhance yield. Different fund solutions for alternative asset classes, which are regulated under the Alternative Investment Fund Managers Directive (AIFM Directive), are consolidated on one platform under Deka Alternative Investments (DALI). Plans include expansion of the institutional offering to include property funds of funds, property special funds and advisory services building on the Deka Property Compass. Also reflected in the product range is growing customer demand for sustainable investments.

Products and services for the proprietary business of savings banks and institutional investors are pooled in the growing business division Asset Servicing. At the core of its offering is the amalgamation of different asset classes in master funds, combined with a reduction of regulatory complexity for individual customers. During the reporting year, Deka Investment GmbH's Master KVG offering was awarded an overall score of 1 ("excellent") by the rating agency Telos.

Measures in banking business divisions

The business divisions in the banking business remain effectively interlinked with the asset management business in spite of the greater organisational separation that has been introduced. Through targeted measures, the business model can be implemented in banking business without major strategic adaptations, even taking into consideration future regulatory requirements. Furthermore, working in collaboration with Institutional Sales, even closer integration with the savings banks should be brought about in terms of both infrastructure services and advisory services, for example with the use of the Treasury Compass.

Ongoing development of the sustainability strategy

The Deka Group's sustainable corporate governance is based on the strategy of the savings banks, which was further developed in the "Düsseldorfer Erklärung" (Düsseldorf Declaration) during the 25th German Savings Banks Day in April 2016. The Deka Group incorporates the framework defined by its owners into its philosophy and sets itself corresponding objectives, which it strives to fulfil as the *Wertpapierhaus* of the savings banks. The Deka Group's commitment to a sustainable business policy is an integral part of this philosophy.

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, while emphasising the benefits to society.

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 sets out binding guidelines for employee conduct. 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 cornerstones of professionalism, responsibility, trust, collegiality, sustainability, diversity, communication and consistency. This includes, for instance, preventive measures aimed at avoiding economic crime.

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 (*Deutscher Nachhaltigkeitskodex*)), the continued improvement of sustainable product and services portfolios is growing ever more important. Against the backdrop of the German government's Climate Action Plan 2050, the Deka Group has thus set itself the goal of producing overall evidence on CO₂ emissions associated with its business activities. This includes in particular compiling the indirect emissions from total customer assets and from banking business recognised on the balance sheet, in addition to the readings already available on proprietary banking operations. A step-by-step plan will be created on the basis of the evidence obtained. The measures set out in the plan are to be implemented from 2018.

Four areas of activity ensure an integrated approach to sustainability. Accompanying these activities with communication measures and presenting them in a transparent way (including in the annual sustainability report and in the sustainability section on the website) 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 requirements of institutional and private customers. Sustainability aspects are taken into consideration for securities and property-based investment products, as well as in the area of financing and for proprietary investments.

Sustainable HR management: The Deka Group is responding to the challenges posed by demographic change. As a sought-after, responsible employer, it 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.

Sustainable banking/environmental management: The Deka Group is committed to minimising the impact of its business operations on the environment. It acts on the basis of appropriate environmental guidelines and has a certified environmental management system in accordance with DIN EN ISO 14001, which since 2016 has been extended to include a regular energy audit pursuant to DIN EN 16247-1, in accordance with the provisions of the German Act on Energy Services and Energy Efficiency Measures (*Gesetz über Energiedienstleistungen und andere Energieeffizienzmaßnahmen* – EDL-G). During 2017, DIN EN ISO 14001 will be converted to DIN EN ISO 14001:2015.

Corporate citizenship: The Deka Group promotes architecture, academia, culture, sports and the arts. 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 were audited by leading national and international rating agencies specialising in sustainability, and have been awarded high ratings.

During the reporting year, the Deka Group once again enhanced its attractiveness for investors who place value on sustainability principles.

At the end of April 2016, MSCI – a global provider of sustainability analyses and environmental, social and governance (ESG) ratings – confirmed its initial very good AA rating, first awarded at the end of 2015. Furthermore, in September 2016 the Deka Group improved its overall score in oekom research's corporate rating by one notch to "C+". This is one of the best grades currently awarded by oekom research in the banking sector, and corresponds to "Prime" status. This strong rating will make the Deka Group's issues and products particularly interesting to investors whose investments must meet certain environmental and social criteria. This is also confirmed by other ratings awarded by respected rating agencies specialising in sustainability aspects.

Detailed information on the Deka Group's sustainable corporate governance can be found in the annual sustainability report.

Organisational structure

During the 2016 reporting year, the Deka Group's activities were arranged in four business divisions. The Securities and Real Estate business divisions cover Deka's asset management activities, with the Real Estate business division also incorporating property financing. The Capital Markets and Financing business divisions relate to the Deka Group's banking business. The business divisions work closely with one another and with the sales departments and corporate centres. Alongside non-core business, they form the basis for the Deka Group's segment reporting in accordance with IFRS 8.

At the start of the 2016 financial year, any securities investments not used as a liquidity reserve but rather as a strategic investment were transferred from the Treasury corporate centre to the Capital Markets business division. As part of this new arrangement, Treasury took over responsibility for group-wide liquidity management across all maturity bands. The previous year's results presented within segment reporting have been adjusted accordingly as a result of the structural change.

Securities business division

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

The product range comprises

- fundamental and quantitative actively managed, mutual securities funds in all major asset classes (equities, bonds, money market and mixed funds, capital protected funds as well as any combination of these),
- products relating to fund-based asset management, including *Deka-Vermögenskonzept* (Deka Wealth Concept), asset management funds (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 solution-based asset servicing offerings with an emphasis on master KVGs for institutional customers, and
- passively managed index funds (exchange-traded funds – ETFs).

The product offering in the Securities business division is supplemented by customised and standardised securities-related services, such as macro/funds/securities research, fund reporting, overlay management and transition management.

Products and solutions are marketed under the brands Deka Investments (for retail products), Private Banking and Deka Institutionell (institutional products). The products of LBB-INVEST (Landesbank Berlin Investment GmbH) complete the range of mutual and special funds offered by the Deka Group. Going forward, this subsidiary is being strategically restructured, and will concentrate on the establishment and distribution of externally-managed and advised mutual funds.

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

Real Estate business division

The Real Estate business division offers property investment products for private and institutional investors as well as credit funds. Until the end of 2016, its activities also encompassed the financing of commercial property. The business division's focus is on the office, shopping, hotel and logistics segments. In property-related asset management, the range of services includes the purchase and sale of marketable commercial properties in liquid markets as well as their value-oriented development.

The product range includes open-ended mutual property funds, special funds with both open and closed investor structures, individual property funds and credit funds. The institutional product range is currently being expanded to include an additional property fund of funds and club deals in the form of open-ended property funds or property funds set up through limited liability investment partnerships.

The Deka Immobilien GmbH subsidiary is responsible for global buying and selling of properties, property management and all other services related to property investment funds, covering all of the funds offered. The two capital management companies, Deka Immobilien Investment GmbH and WestInvest Gesellschaft für Investmentfonds mbH, focus on active portfolio and risk management. Responsibility for the issue and management of credit funds that invest in property, infrastructure or transport sector financing lies with Deka Investors Spezial-Investmentaktiengesellschaft mit veränderlichem Kapital und Teilgesellschaftsvermögen, which is externally administered by Deka Immobilien Investment GmbH.

The business division's objective is to further consolidate its position as a major international real estate asset manager by adopting a quality- and stability-oriented approach.

Commercial property financing activities, which still fell within the Real Estate business division during the reporting year, are geared to the markets, business partners and property types that are also relevant to investment fund business. Broad-based access to the market and investors means that property financing reinforces asset management activities.

Capital Markets business division

The Capital Markets business division is the central product, solution and infrastructure provider while also acting as a service provider and driving forward innovation in the Deka Group's customer-focused capital market business. As such, the business division provides the link between customers and the capital markets. The business division's portfolio is optimised on an ongoing basis in light of regulatory requirements and taking into account the needs of customers.

With its tailored range of services relating to securities repurchase transactions, securities lending and foreign exchange trading, the business division provides the central securities and collateral platform for the savings bank association. The business 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 institutional customers clearing services, 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 all securities lending products, securities repurchase transactions and customer-oriented foreign exchange business.
- The Trading & Structuring unit is the Deka Group's centre of competence for trading and structuring capital market products in all asset classes, both for bond and certificate issuance business and for strategic investments.
- The Commission Business unit executes trading transactions with stock exchange traded securities and derivatives on behalf of customers within and outside the Group.

The business division's aim is to continue to offer functions of strategic importance to the *Wertpapierhaus* of the *Sparkassen-Finanzgruppe*, despite a difficult market environment, by exploiting synergies and economies of scale. The business division is responding to regulatory requirements by optimising the business portfolio on an ongoing basis and by efficiently managing regulatory capital requirements. In this way, the business division acts as a solution and infrastructure provider for the savings banks and other institutional customers.

Financing business division

The Financing business division focuses on financing for the savings banks, infrastructure and transport assets, and export finance backed by export credit agencies (ECAs). Aside from savings bank finance, the business focus is on loans suitable for asset management business, part of which can usually be passed on to banks, savings banks, other institutional investors or the Deka Group's own investment funds.

As part of savings bank funding, loans are granted to the savings banks across all maturity bands. Infrastructure financing comprises the financing of energy, grid, utilities, transport and social infrastructure in Germany and abroad. Transport asset financing is focused on aircraft and ships.

In the Financing business division, in future the core portfolio will be separated from business that is not in line with strategy (the legacy portfolio). The legacy portfolio comprises loans granted before the change in credit risk strategy in 2010. The intention is to selectively extend the core portfolio, while reducing legacy business in a manner that safeguards assets.

Sales

Savings Banks Sales & Marketing

Savings Banks Sales & Marketing focuses on comprehensive sales support for the savings banks in their direct contact with retail and commercial customers as well as in their customer advice and support. It therefore represents an important link between Deka and customer advisers at the savings banks as well as between production and customers within the Group.

To ensure nationwide support, Sales are divided into six sales regions in Germany. Sales directors maintain regular dialogue on markets and customers with the savings banks and associations. In addition, Deka sales representatives and other employees provide the savings banks with on-site assistance in marketing and sales activities as well as with training for customer advisers.

In order to generate active demand from end customers at their savings banks and to support the savings banks in acquiring and retaining customers for securities business, the Deka Group's marketing and communication activities also directly target end customers, in coordination with the savings banks.

- The Sales Management, Marketing and Private Banking unit systematically analyses the needs of clients and the savings banks as well as competitor and market developments, and based on its findings derives forward-looking sales and marketing measures to support the savings banks.
- The Product and Market Management unit is responsible for all matters related to the funds, certificates and wealth management solutions offered and in relation to products for private and occupational pension schemes throughout the entire product life cycle.
- The Digital Multi-Channel Management unit actively supports the savings banks in expanding online securities business. It develops online services along the entire value chain and links these with media-based sales channels and customer service.

Institutional Customer Sales

The Institutional Customer Sales unit supports business with savings banks and with institutional customers outside the savings bank sector. Customer advisers adopt a comprehensive approach, which includes all products and services offered by the Deka Group across all business divisions. In this regard, one tool that assists in customer retention is Asset Servicing, an area in which the Deka Group is one of Germany's leading providers.

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 management of the bank. 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. The integrated Strategic Proprietary Business Management & Asset Liability Management team develops methods and applications for institutional customers' interest rate book management and asset allocation. In addition, the comprehensive advisory approach 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 Customers Sales Management unit has a cross-cutting function, supporting all aspects of Institutional Customer Sales.

Corporate centres

The Treasury corporate centre is responsible for asset/liability management and thus acts as the resource manager of the Deka Group. It manages liquidity reserves across the Group and guarantee risks from asset management, and manages market risk and default risk in the banking book as well as refinancing of the Deka Group. By setting transfer prices for the whole Group, Treasury manages the structure of the balance sheet within the framework of the current business plan. Treasury chairs the Management Committee Assets/Liabilities (*Managementkomitee Aktiv-Passiv* – MKAP), which regularly addresses issues and decisions in relation to managing the balance sheet structure.

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

Non-core business

With effect from 1 January 2016, the lending business that had until then been managed as part of non-core business was transferred to the Financing business division. The portfolio now mainly consists of legacy business with securitised and structured products and its volume is now relatively small. The remaining transactions are analysed regularly, using a number of different scenarios, with regard to potential appreciations in value, default risk and expected net interest income. Taking into account these criteria, a decision is then taken as to whether to sell or hold the positions or seek further collateral.

Major companies and locations

The Deka Group's business is managed from the head office in Frankfurt am Main. The major capital management companies are also located there. WestInvest Gesellschaft für Investmentfonds mbH is based in Düsseldorf. LBB-INVEST is based in Berlin, while S Broker is located 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, Milan, New York, Paris, Singapore, Tokyo, and Vienna.

With effect from 1 July 2016, fund accounting and parts of the fund administration were transferred to the investment servicing company State Street as part of the disposal of the business activities of the Dealis Fund Operations GmbH joint venture (50% holding). A long-term contract will ensure that the service for funds and customers of Deka continues to be of a high quality. The formal transfer of Dealis employees took place at the 2016/2017 turn of the year.

Markets and influencing factors

In securities-related asset management, the economy, money market and capital market environment, 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, property-related 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 German Investment Funds Association, *Bundesverband Investment und Asset Management – BVI*, as at 31 December 2016) of €118.4bn and a market share of 14.3%, Deka is Germany's fourth largest provider of mutual securities funds, while in terms of mutual property funds, with fund assets (according to BVI, as at 31 December 2016) of €26.6bn and a market share of 30.3%, it holds the 2nd position in Germany.

With issue volume once again rising significantly during the reporting year, at the end of 2016 the Deka Group achieved a market share of 13.3% in the primary market for investment certificates and was thus ranked 2nd in Germany. At the same time, Deka has established itself as the market leader in reverse convertible bonds and is the fourth largest provider of express certificate structures.

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 as defined by IFRS 8 and is based on IFRS accounting standards. In addition to net income before tax, the economic result includes changes to the revaluation reserve before tax as well as the interest rate and currency related valuation 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. Furthermore, potential future charges are included in the economic result if the probability of such charges arising in the future is assessed as possible but they may not yet be recorded in IFRS reporting, due to the fact that accurate details are not available. The aim of adjustments compared with net income before tax (under IFRS) is to reflect actual growth during the period under review.

The economic result has been used in external reporting at Group and business division level since 2007. For information on reconciling the economic result with net income before tax according to IFRS, refer to segment reporting in note [2], which shows the measurement and reporting differences in the "reconciliation" column. This ensures that it is possible to reconcile the figures presented with net income before tax.

The Common Equity Tier 1 capital ratio is used as a key performance indicator for assessing the adequacy of the total amount of own funds of the Deka Group in line with regulatory requirements. It is therefore also of major importance for rating agencies' assessments of the Deka Group. The Common Equity Tier 1 capital ratio is defined as the ratio of Common Equity Tier 1 capital to risk-weighted assets (RWAs) of 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 to implement the EU Capital Requirements Directive (CRD IV), the capital ratios are reported both applying the transitional provisions (phase-in) and disregarding the transitional provisions (fully loaded). To supplement these, further regulatory key indicators are monitored, including the leverage ratio and liquidity coverage ratio (LCR).

Utilisation of risk capital allocated in the form of risk appetite, applying the leading liquidation approach, is the key risk management parameter. The monthly risk-bearing capacity analysis involves comparing the Deka Group's risk capital reserved for monitoring capital allocation, which may be used to cover losses, with total risk determined across all risk types that have an impact on profit or loss. This makes it possible to establish whether total risk limits are being 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' represent the key performance indicator of sales success in Asset Management and for certificate sales. This figure essentially consists of the total direct sales 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-related volume of mutual and special fund products (including ETFs) in the Securities and Real Estate business divisions, direct investments in the funds of partner organisations, the portion of fund-based asset management activities attributable to partner organisation funds, third party funds and liquidity, and 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 reflected at Deka Group level, differentiated according to customer segment (retail and institutional customers) and product category.

A distinction is made here between:

- mutual funds and fund-based asset management,
- special funds and mandates,
- certificates and
- ETFs.

The trend in the two key non-financial performance indicators during the reporting year is described in the section on business development and profit performance at Deka Group level and of the Securities, Real Estate and Capital Markets business divisions.

Economic report

Economic environment

In 2016, the money and capital markets were once again shaped by the expansionary monetary policies of central banks in Europe, Japan and the USA. The European Central Bank's (ECB's) negative interest rate on deposits meant that returns on bond and money market products remained at an extremely low – and at times negative – level, which severely limited the income achievable from banks' and funds' liquid investments. The market environment also had an adverse impact overall on capital market and financing business. Demand in short-term capital markets business remained subdued in view of the virtually limitless availability of liquidity. Towards year-end, the US Federal Reserve's increase to key interest rates in December along with relatively good economic expectations suggested that the downturn had bottomed out, however there were no signs of an appreciable upward trend on the bond markets.

Conditions in asset management also worsened compared to the previous year. Despite the unattractive interest rates on deposits, which favoured securities investments, mutual investment funds recorded substantially lower cash inflows than in the previous year. Trends in the equity markets during the first half of the year contributed to the cautious attitude of investors. After a noticeably negative performance at the start of the year, continued political uncertainty curbed any sustained recovery in share prices, such that they largely moved sideways. Temporary turbulence arose during the Brexit vote in particular. By the end of the year, positive trends in corporate earnings and leading economic indicators provided fresh momentum. The equity markets also responded positively to the outcome of the presidential election in the USA. Volatility declined somewhat in comparison with the previous year, which had a negative impact on trading activities. The market for retail certificates and warrants also continued to cool. In property-related asset management, growth will continue to be constrained by the limited supply of properties in the core segment with acceptable yield profiles.

Overall economic conditions

Global growth momentum once again slowed slightly during 2016. According to estimates from Deka economists, global gross domestic product grew by just 2.9% during 2016, following growth of 3.0% in 2015. Declining growth rates were recorded in both the USA and Europe and in China. Only towards the end of the year did global leading indicators point towards economic recovery.