Liquidity and refinancing

The liquidity management requirements set out under the Minimum Requirements for Risk Management (*Mindestanforderungen an das Risikomanagement* – MaRisk) were implemented in full during the reporting year. The regulatory requirements of the German Liquidity Regulation (*Liquiditätsverordnung*) were likewise exceeded at all times during the reporting period. The liquidity coverage ratio (LCR) was 124.4% as at the 2016 reporting date. Details about the Deka Group's liquidity position, including the liquidity coverage ratio, can be found in the risk report.

In terms of its refinancing, DekaBank has a broad investor base, including both retail and institutional investors in Germany.

Furthermore, in the first quarter of 2016 an international benchmark bond with a volume of €1bn and a term of two years was successfully placed on the capital market. Together with targeted private placements via the debt issuance programme (DIP), this enabled refinancing activities to be further diversified internationally.

Human resources report

The total number of employees rose during the reporting year to 4,556 (end of 2015: 4,277). A significant part of this growth was attributable to S Broker, whose 150 employees were included in the Securities business division for the first time as at mid-2016. It was also driven by the expansion in capacity of Savings Banks Sales & Marketing, in part for the implementation of the multi-channel strategy, as well as moderate increases to the staff of the Securities and Real Estate business divisions. In contrast, the number of employees in the Capital Markets business division fell slightly. The number of employees is determined by counting the number of employment contracts (temporary and permanent) in existence at the reporting date, including inactive employees, trainees and interns.

The number of employees relevant to the income statement increased by 7.2% compared with the end of 2015 to 3,990.0 (end of 2015: 3,722.1). This includes 138.9 employees resulting from the takeover of S Broker. Without this acquisition, the increase would have been 3.5%. The number includes part-time employees actively involved in work processes in the Deka Group, calculated as full-time equivalents.

At the year-end, 81.3% of the staff employed were in full-time posts, exactly the same proportion as in the previous year. The average age of active employees (excluding apprentices and inactive staff members) was 43.3 years (previous year: 42.8 years).

Key areas of HR activity involved supporting the adaptation of structures, processes, roles and duties within the Deka Group in connection with the transformation programme and also the new digitalisation strategy. This also included the reassignment of responsibilities and modified forms of cross-divisional collaboration.

Forecast and opportunities report

Forecast report

Forward-looking statements

The Deka Group plans its future business development on the basis of assumptions that seem most probable from a current perspective. However, plans and statements about growth during 2017 are subject to uncertainties.

Expected macroeconomic trends

DekaBank anticipates a moderate acceleration of global macroeconomic growth to 3.4%. Only minor growth in industrialised countries will be contrasted by markedly increasing momentum in emerging markets, driven in particular by economic recovery in Central and Eastern Europe as well as Latin America, combined with stable high growth rates in Asia.

In industrialised countries, growth in the eurozone will be robust, while in the USA the increase will be greater. The latter is driven in particular by a favourable investment and consumption climate, most recently accompanied by satisfactory growth in the level of employment. However, the expansive fiscal policy promised in the legislative term of US President Trump is only likely to stimulate the economy to a slight extent, all the more so because a parliamentary majority for debt-financed tax cuts and infrastructure projects is by no means certain. In addition, the strengthened US dollar could slow down the export economy. Following the Brexit vote, the European Union is confronted with the need to reinvent itself, at least partially. This includes finding answers to questions on how to get to grips with the situation in European public finances and how to simplify the political decision-making process. Despite continued unresolved problems, the foundation for growth broadened, with peripheral states also recently exhibiting growth. In this regard, private consumption remains the key factor underpinning economic development in the eurozone.

Oil prices have an influence on inflation, which should pick up temporarily. According to forecasts, however, core inflation in the eurozone will increase only marginally and remain below the ECB's expectations. The latter should therefore maintain its ultra-expansive policy and continue its securities purchases at the same level for some months beyond March 2017, and only then begin to scale back the programme. The monetary policy of central banks will thus continue to have a significant influence on economic developments during 2017 as well.

Expected trends in the capital markets

The bond markets have experienced a shift in sentiment. With rising inflation expectations and diminishing fears of deflation, there is a growing consensus that central banks should not take expansionary action once again. As a result of this, towards the end of 2016 yields on long-term bonds rose marginally in the eurozone and in fact rose significantly the USA. This trend should continue at least tentatively in 2017. In addition, the 2017 election year, presumed to be accompanied by an active fiscal policy, along with financial markets that will continue to be susceptible to fluctuation, is likely to lead to a steeply rising yield curve in the coming months. The expected reduction in the ECB's bond purchase programme should also contribute to upward pressure on yields. Spreads in the eurozone's periphery remain adversely affected by the greater overall political uncertainty. Prospects for the corporate bond market remain largely positive.

Favourable fundamental developments in the equities market will continue. The business climate, expected to remain stable with further increases in corporate earnings, along with the positive effects of a gradually normalising interest rate environment, could have a positive impact on share prices, despite the ongoing risk factors. Moderate valuations on the German equity markets in comparison to other regions may reinforce the potential for recovery.

Expected trends in the property markets

The outlook for rental markets in Europe remains subdued. Above-average rent increases are expected in 2017 for Madrid and Barcelona in particular, but also for Berlin and Munich. Due to continued uncertainty in the United Kingdom, however, declines in rent are expected in London along with further yield increases. Downward pressure on initial returns in Europe will once again continue in 2017. However, yield compression should no longer be as high as in the previous year.

In the USA, rental growth is likely to slow in most markets during 2017. An average gain of at least 1% is nonetheless expected across all locations, trending downwards in subsequent years. The sharpest growth in rents in 2017 will be in Dallas and Los Angeles, as well as in the New York sub-segment Downtown Manhattan. The weakest development is likely to be seen in San Francisco and Houston. Higher yields on a broad scale are not expected before 2018, as interest rates are only being raised very cautiously. In Asia, Singapore should once again experience a significant fall in rent in 2017, while rental growth should continue in Tokyo. In Sydney and Melbourne, strong growth in rent is once again expected in 2017, whereas Brisbane and Perth will continue to record slight declines in rent. Returns in Australian markets are likely to fall slightly.

Overall assessment of the economic trends

Overall, the Deka Group expects no significant changes to economic conditions from the 2016 financial year. The surplus liquidity on the money market driven by ECB policy, and the low interest rates and yields, which are expected to remain low going forward, will continue to create some relatively challenging conditions for the

Deka Group. Whether the interest rate environment will cause investors to shift towards securities investments will depend, among things, on the influence of political factors. The uncertainty resulting from political developments and conflicts could mask positive fundamental data. Moreover, regulatory interventions could unsettle investors and lead to fund outflows.

Expected business development and profit performance

In 2017, the Deka Group will continue ongoing strategic initiatives to further develop the *Wertpapierhaus*. These include the implementation of the multi-channel strategy in order to support the forward-looking positioning of the savings banks in online securities business, differentiated approaches to various retail customer segments and strengthening institutional business, including outside the *Sparkassen-Finanzgruppe*.

The economic result for 2017 is expected to be around the level of the figure for 2016. The forecast economic result will ensure that DekaBank remains able to distribute profits and to make the reinvestments necessary for the purposes of capital management.

The Securities business division is seeking to increase its net sales performance in 2017. As well as good net sales performance with retail customers, the strengthening of institutional business aside from the savings banks is also expected to contribute to this. There should also be a positive impact from ongoing development of the products offered, so as to take account of the various needs of customers.

Market risks for the Securities business division consist firstly of the continued low interest rate level. Although in principle this makes property investments more attractive than deposit products, in the medium-term it could lead to declining growth rates, falling corporate earnings and corresponding drops in prices. There is also a risk of net outflows from bond funds. On the other hand, a marked rise in interest rates due to a potentially more expansive fiscal policy could noticeably influence the valuation levels in funds. Moreover, regulatory changes could unsettle investors and have a negative impact on wealth creation through funds.

The Real Estate business division continues to manage sales of open-ended mutual property funds for retail customers via sales quotas, which are geared towards developments in the transaction markets and proactive liquidity management of the funds. Planned net sales are at approximately the same level as the strong 2016 performance. In institutional business, net sales performance should also be boosted by the new club deal range and an additional property fund of funds. Internationalisation of the business continues to move ahead, for instance through the expansion of business in North America. There are also plans to increase volumes in property financing, which in 2017 will be assigned to the Financing business division but which will continue to act as a close strategic partner of property-related asset management. In property financing business, further erosion to lending criteria and/or to credit margins are considered to be key risks to earnings.

As in the Securities business division, regulatory interventions, which could cause lasting damage to the appeal of fund investments, pose a risk to future performance. The high price level reached for core properties increases the risk of devaluation, especially given the political uncertainty.

The Capital Markets business division will continue to further develop its product offering and range of solutions during 2017. This will include a focus on structured products, bonds and issuance business as well as on extending infrastructure links with savings banks and institutional customers.

Potential regulatory interventions could once again influence customer business in 2017. Particular market risks lie in the future development of market rates and of the competitive environment in commission-based business.

The Financing business division plans to grow business in segments aside from savings bank financing and to increase the volume of new business arranged where profitability is adequate. At the same time, the legacy portfolio will continue to be reduced while safeguarding assets.

Potential risks could include a further worsening of the fiercely competitive market environment or a further deterioration in ship charter rates.

Expected financial and risk position

In 2017, the Deka Group is anticipating a continued sound financial position and slightly higher total assets, likely to be driven primarily by the planned expansion in loan volume. Balance sheet management is already geared towards ensuring compliance with the leverage ratio, although compliance is not expected to be legally binding in Europe for the first time until 2021.

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

The Common Equity Tier 1 capital ratio (fully loaded) is expected to decrease, partly due to the expansion in loan volume. However, a strong Common Equity Tier 1 capital ratio of over 13% is still envisaged for 2017. The tightened expected regulatory requirements will place additional strain on the capital ratios, such that it will be essential to compensate proactively for the negative effects by reinvesting annual net profits.

According to current planning, utilisation of risk capacity will increase slightly but remain at a non-critical level in 2017. The likely higher financing volumes, the anticipated volume development in asset management and the increasing market volatility also expected may lead to a noticeable increase in the level of risk. This will be offset by increasing risk capacity, resulting in particular from the reinvestment of profits.

Development of the key performance indicators of the Deka Group *(Fig. 16)*

		31 Dec 2016	Forecast 2017
Economic result	€m	415.1	At around the previous year's level
Total customer assets	€bn	256.8	Slight increase
Net sales	€bn	16.9	Slight increase
Common Equity Tier 1 capital ratio	%	16.7	Over 13%
Utilisation of total risk-bearing capacity	%	35.2	Slight increase

Opportunities report

Opportunity management

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

- Opportunities arising from changes in circumstances result from market developments that are more favourable than expected. These include regulatory changes or changing investment trends on the part of customers.
- Corporate strategy opportunities are mainly linked to the ongoing transformation of the Deka Group into the *Wertpapierhaus*. The associated positive effects may be greater or could occur sooner than anticipated in the forecast report.
- Other opportunities lie in greater than anticipated process improvements or exceptional successes in cost management. These are likewise to be seen in the context of the ongoing development of the Deka Group as the *Wertpapierhaus*.

Current opportunities

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

For example, a more expansive fiscal policy in the USA – which would also pose risks – could lead to the central banks gradually abandoning their low interest-rate policy and oversupply of liquidity in the markets. The resulting increase in yields at the long end, associated with a steepening yield curve, could improve the conditions for investing own funds and managing liquidity. In addition, in such a scenario economic growth – driven by the USA – could turn out to be stronger than the level assumed in baseline planning.

A favourable macroeconomic scenario such as this would improve general conditions most notably for securities- and property-related asset management and capital market activities. This would be further boosted by the valuation of pension obligations. This scenario is seen as rather unlikely, however.

Opportunities on the market could also be generated by an even stronger shift towards funds for wealth creation. However, the Deka Group anticipates that this process will continue to take place only slowly, as the securities culture in Germany is not yet strongly developed. Nonetheless, if the popularity of funds and certificates should increase, due not least to effective multi-channel marketing, this would have a beneficial impact on net sales performance and total customer assets.

Strategic and other opportunities arise in connection with the systematic development of the business model of the Deka Group as the *Wertpapierhaus* for the savings banks. The resulting effects are already incorporated in the forecasts for 2017. They will only have a positive impact on the Deka Group's business and profit situation if their implementation is accomplished even more quickly, or if the effects are greater than expected.

Risk report

Risk policy and strategy

The basic principles underlying the Deka Group's risk policy and strategy remain largely unchanged from the previous year. To achieve its objectives, the Deka Group consciously incurs risk in line with strategic requirements in order to generate sustainable added value for its shareholders. The Deka Group utilises the advantages arising from the interconnection of its business activities in the areas of investment funds and real estate, and in its lending and capital market businesses, to successfully implement its vision of the *Wertpapierhaus*, while avoiding any conflicts of interest. Implementation of the business model, with customers as the key focus of business activities, may give rise not only to counterparty, market price and operational risks but, more particularly, to business and reputational risks as well as liquidity risks. These risks are limited by a comprehensive risk management system that covers all types of risk and all business divisions, sales and corporate centres in order to ensure the success of the Deka Group as a business.

The Deka Group's focus remains on added-value generating operations that are in demand from both the savings banks and their end customers where the risks are strictly limited and for which adequate expertise is available. As part of the long-term business strategy defined by the Board of Management and the risk strategy consistent with it, risk positions are entered into primarily in connection with customer transactions, when they can be hedged on the market.

In addition, risks are incurred if they are conducive to liquidity management or if they are required to leverage synergies in investment fund business. Business activities in new products or new markets, and the establishment or acquisition of new business units, are undertaken only after a thorough risk evaluation has been performed.

The framework for business and risk management is provided by the general risk appetite concept (Risk Appetite Framework – RAF), which forms the main basis for determining the adequacy of internal capital and liquidity and is an integral part of the Deka Group's strategy system. Starting with the desired risk profile and available risk capacity, appropriate risk limits are derived from these and regularly reviewed.