Human resources report

The total number of people employed by the Deka Group increased in the first six months of 2017 to 4,634 (end of 2016: 4,556). 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 only slightly (0.6%) compared with the end of 2016 from 3,990 to 4,015. The number includes part-time employees actively involved in work processes in the Deka Group, calculated as full-time equivalents.

Forecast report

Forward-looking statements

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

Actual trends in the international capital, money and property markets or in the Deka Group's business divisions may diverge markedly from our assumptions, which are partly based on expert estimates. The Deka Group's risk position is summarised in the risk report. If the risk scenarios referred to in the risk report should materialise, for example as a result of stress situations or counterparty default, this may result in negative differences from the forecast during the remaining months of the 2017 financial year. Conversely, opportunities may result in expectations being exceeded.

Expected macroeconomic trends

After the first six months, DekaBank expects global economic growth to accelerate to 3.5% in 2017. While the positive trend in the industrialised nations is driven mainly by higher growth in the USA, emerging markets are benefiting from economic recovery in Central and Eastern Europe and Latin America.

In the eurozone, DekaBank expects a higher growth rate of 2.0%. The main sentiment indicators signal strong economic momentum. Political risks persist, however, and are inhibiting investment activity.

Momentum in Germany may ease somewhat in the second half of the year. The rate of inflation declined considerably in the first half, and is likely to remain at a low level in the coming months.

The new US government's economic policy intentions have both stimulating (tax cuts) and inhibiting effects (trade restrictions, limiting of immigration). Overall, however, DekaBank anticipates positive effects and revised its growth forecast upwards in the first half of the year.

Inflation in the eurozone is expected to remain undesirably low. US inflation, on the other hand, is expected to rise slightly due to the very low level of unemployment. This increase is, however, likely to remain below the expectations set out by the Fed.

Expected trends in the capital markets

With inflation rising only slowly, expansionary monetary policy is expected to continue. The ECB will maintain its bond purchase programme amounting to €60bn per month until the end of 2017. Not until the autumn is the ECB expected to announce a gradual tapering of bond purchases over the following year. An increase in key interest rates will only be discussed once the bond purchase programme has ended. The US Federal Reserve is likely to aim for a further interest rate hike of 0.25 of a percentage point in the second half of 2017.

DekaBank expects only a slight increase in bond yields. Yields on short-dated German government bonds are likely to stick at extremely low levels, with moderate increases expected for the longer maturities. Yields on US government bonds are expected to rise slightly. As the market's long-term inflation expectations remain low, this increase will be very moderate overall, despite increased monetary policy tightening. On equity markets, further moderate rises are anticipated.

Expected trends in the property markets

In Europe, rentals are expected to continue growing strongly in Barcelona and Madrid, before momentum eases considerably on both markets in subsequent years. In Amsterdam, Paris and German locations too, rental growth is likely to remain above the European average. In London and Warsaw, rents are expected to decline further in the current year. Except in the UK, we expect initial yields to decline slightly until the end of this year, so that the sales multiplier should increase further. Yields are at an historically low level, but should start to bottom out next year.

In the USA, rental growth is likely to slow in most markets during 2017. We expect average growth across all locations of around 2% with a declining tendency. Over the next five years we expect rental growth to be strongest in Chicago, Miami and Seattle, and in the New York sub-market of Downtown Manhattan. We believe San Francisco and Houston will see the weakest growth. Higher yields on a broad scale are not expected before 2018, as interest rates are only being raised cautiously.

In Asia, the especially cyclical market of Singapore is likely to have the strongest growth potential after the rental correction phase starting in 2019. Rental growth in Tokyo, on the other hand, is likely to ease after several years of above-average growth. We expect rentals to continue growing strongly in Sydney and Melbourne, but to fall slightly in Perth during 2017. Yields on Australian markets are likely to experience a further slight decline.

Expected business development and profit performance

The Deka Group will continue to pursue the current strategic initiatives for its further development as the *Wertpapierhaus* for the savings banks throughout 2017. This involves implementing the multi-channel strategy to support the future-oriented positioning of the savings banks in online securities business, ensuring that different retail customer segments are addressed in different ways, and strengthening institutional business both inside and outside the *Sparkassen-Finanzgruppe*.

The targets defined in the 2016 forecast report should continue to be attained.

The economic result for 2017 is expected to remain at around the figure seen in 2016. This result will ensure that DekaBank remains able to distribute profits and make the necessary reinvestments as part of the capital management process.

After a positive performance in the first six months of the year, the Asset Management Securities business division will continue striving to increase net sales in retail and institutional business for 2017 as a whole. To this end, the product range will continue to be developed further in the second half of the year.

The Asset Management Real Estate business division is expected to achieve net sales slightly below the previous year's level. Now that sales quotas have largely been placed with open-ended mutual property funds, net sales in institutional business will also be increased through the new club deal series.

The new Asset Management Services business division is focused on building and expanding digital multi-channel management, managing custody accounts, providing custodial services and integrating S Broker into the overall offering. Based on the growth in asset management targeted during the remaining months of 2017, a further increase in the number of custody accounts is expected.

The Capital Markets business division will continue to develop its range of products and solutions. Focal points include structured products, bonds and issuance business, as well as extending infrastructure links with savings banks and institutional customers.

The Financing business division intends to expand the specialised and property financing business 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.

Expected financial and risk position

Deka Group expects its financial position to remain sound over the further course of 2017, with a slight increase in total assets compared with the position at mid-year, driven mainly by the planned expansion of loan volumes. The Group's liquidity position is expected to remain at a comfortable level. The Common Equity Tier 1 capital ratio (fully loaded) is expected to decline by the end of 2017 due to the expected increase in loan volumes, but will remain above 13%. According to current planning, utilisation of risk capacity will increase in the second half of the year but remain at a non-critical level.

Risk report

Risk policy and strategy

The principles underlying the Deka Group's risk policy and strategy and the organisation of risk management and risk control are largely unchanged compared with the 2016 Group management report. 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 risks are strictly limited and for which adequate expertise is available. At the same time, risks are incurred if they are conducive to liquidity management or if they are required to leverage synergies in investment fund business. 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.

Changes to risk models had, in aggregate, only a minor impact on the Group's overall risk compared with the position at the end of 2016. Changes to the loan portfolio model implemented at the beginning of the year led to a moderate increase in counterparty risk in the first quarter. This increase in risk was fully compensated in the second quarter by portfolio effects due to position changes and the market trend. Besides the introduction of an enhanced model, migration matrices were optimised and the parameterisation of loss ratios was updated. The methodological refinements implemented at the beginning of the year had the effect of reducing business risk overall.

The general limiting of exposures to shadow banking exposures – in line with European Banking Authority (EBA) requirements – was likewise implemented in the new year. Shadow banking entities include, among others, money market funds, credit funds and inadequately regulated credit institutions.

It is planned to take the general interest rate risk for pension obligations and guarantee products into account for the first time in the third quarter of 2017, and this will probably be reflected in a marked decline in risk cover potential and an increase in overall risk. Despite such noticeable effects, utilisation of risk capacity remains at a non-critical level overall.