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.

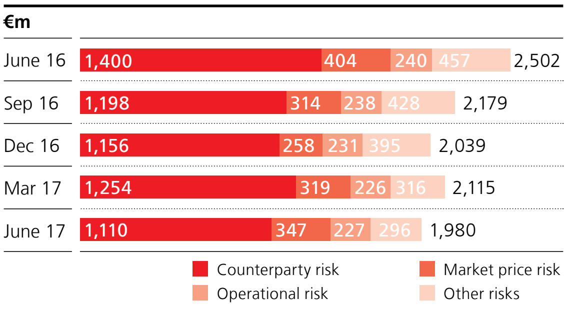
For stress scenarios, at the reporting date of 31 March 2017, the proxy model for market price risk calculation was replaced by integration of the productive model. As expected, this led to slight relief in all scenarios.

Implementation of the ‘Principles for effective risk data aggregation and risk reporting’ (BCBS 239) continued as planned in the first half of 2017. The related 5th MaRisk amendment, which will also include further rules on outsourcing and IT management, is still in the consultation phase. The changes currently planned as part of Basel IV regarding the Credit Risk Standardised Approach (CRSA) and the Internal Ratings Based (IRB) approach continue to be monitored with regard to their potential economic impact. The same applies with regard to the Fundamental Review of the Trading Book (FRTB) and the intended abolition of the Advanced Measurement Approach (AMA) for operational risks, which could potentially also have an impact on Pillar II of the Basel framework.

DekaBank’s overall risk position in the first half of 2017

The risk position presented in the risk report relates to the Deka Group’s risk position overall, and therefore corresponds to the definition used as the basis for presentation of the Deka Group’s business development and profit performance in the economic report. Hence, the report focuses on risks that are relevant from a Group perspective. The definitions of individual risk types are the same as in the 2016 Group management report. The business division-specific risk profiles have been updated to reflect the new divisional structure, without this leading to any significant change at the level of the Deka Group.

Change in Group risk over the course of the year *(Fig. 15)*



Under the liquidation approach, which is used for management purposes, the Deka Group’s overall risk (value-at-risk or VaR, with a confidence level of 99.9% and a holding period of one year) stood at €1,980m as at 30 June 2017 (end of 2016: €2,039m). Despite a moderate increase in counterparty risk in some business divisions, a slight decrease was recorded at Group level over the reporting period. Risk-increasing effects of the aforementioned model adjustments and the build-up of bond positions in the Capital Markets business division were essentially offset by contrary effects due to decreased migration risks, individual rating improvements for capital market counterparties and guarantee funds, position reductions in financing business and reduced bond positions in the Treasury corporate centre. The significant increase in market price risks compared with the end of 2016 is due to the build-up of positions in the Capital Markets business division. There were only minor changes in operational risk during the reporting period. The business risk backed by economic capital at the level of the Deka Group decreased considerably due to the aforementioned model adjustments and declining volatilities compared with year-end 2016. There were only minor changes in the risk level of other risk types included in the risk-bearing capacity analysis.

The moderate reduction in overall risk compares with an increase in risk capacity to €5,881m (end of 2016: €5,785m), due in particular to the positive change in the revaluation reserve resulting from actuarial gains related to pension provisions. This was partially offset by a higher deduction for risks arising from pension obligations. The increase in the correction item for the own credit quality effect as a result of lower refinancing costs also had a positive impact. The increase in retained earnings due to partial reinvestment of 2016 net income and net income according to IFRS accrued up to 30 June 2017 together approximately equalled the amount recognised at year-end 2016. At 33.7%, utilisation of risk capacity was close to the level at year-end 2016 (35.2%). It remained at a non-critical level throughout the whole of the reporting period.

With an unchanged capital buffer for stress scenarios, the maximum risk appetite, which does not incorporate subordinated capital (including AT1 capital and perpetuals), increased slightly – in parallel with the increase in risk capacity – to €4,381m compared with year-end 2016 (€4,285m). Therefore, utilisation of risk capacity was also virtually unchanged, standing at 45.2% as at 30 June 2017, after 47.6% at year-end 2016.

The stress scenarios that are run on a regular basis across all risk types also confirmed that risk capacity was assured in all scenarios as at 30 June 2017. In all considered scenarios, risk capacity utilisation during the reporting period and at 30 June 2017 was below the early warning threshold of 80%. Besides the positive market trend and position changes, the model adjustment required by the regulator (integration of productive model for market price risk) had the overall effect of reducing risk in the stress scenarios.

Under the going concern approach, which is examined as a supplementary test, utilisation of available risk cover potential decreased moderately in the first six months of 2017. With the Common Equity Tier 1 capital ratio now standing at 10.9%, utilisation of the remaining risk cover potential (with a confidence level of 95.0% and a holding period of one year) was 24.8% at 30 June 2017 (end of 2016: 30.5%), and therefore remained at a non-critical level. The increase in unallocated risk cover potential due to the decrease in risk-weighted assets (RWA) with reduced overall risk had a particular impact in this respect.

Market price risks

Current risk situation

Market price risk at Deka Group level (measured using value-at-risk with a confidence level of 99.9% and a holding period of one year) increased significantly compared with the position as at year-end 2016 (€258m) to €347m as at 30 June 2017. This was mainly due to a build-up of positions in the Capital Markets business division, which was accompanied by an increase in spread risks. The risk contributions of the other business divisions, on the other hand, decreased slightly overall. This particularly concerned guarantee risks in the Asset Management Securities business division, for which a steeper yield curve and higher fund prices had the effect of reducing risk.

At 30 June 2017, market price risk for the Treasury corporate centre and the Capital Markets business division (measured by value-at-risk with a confidence level of 99.0% and a holding period of ten days) totalled €41.9m (end of 2016: €28.4m). Utilisation of the operating management limit for Treasury and capital markets business increased to 68% (end of 2016: 43%) and therefore remained at a non-critical level.

Value-at-risk Deka Group without guarantee risks[1]
(Confidence level 99%, holding period 10 days) *(Fig. 16)*

€m	30 Jun 2017				31 Dec 2016				
Category	Treasury and capital market business division	AM Services business division (until 31 Dec 2016 S Broker)	Non-core business	Deka Group without guarantees	Treasury and capital market business division	S Broker (from 1 Jan 2017 AM Services business division)	Non-core business	Deka Group without guarantees	Change in risk
Interest rate risk	40.2	2.2	5.2	42.0	28.1	2.3	5.1	29.2	43.8%
Interest rate – general	9.3	2.3	1.8	10.5	13.7	2.6	1.5	14.8	–29.1%
Spread	41.0	1.1	4.8	42.7	29.1	1.2	4.7	30.7	39.1%
Share price risk	2.0	1.4	0.0	2.7	3.3	2.1	0.0	3.2	–15.6%
Currency risk	5.1	0.1	0.7	4.8	4.2	0.1	1.1	3.7	29.7%
Total risk	**41.9**	**2.8**	**5.0**	**43.9**	**28.4**	**3.4**	**5.1**	**29.5**	48.8%

[1] Risk ratios for interest rate risk and total risk taking account of diversification; includes issue-specific risk spread

In the period under review, the VaR of spread risk increased to €42.7m (end of 2016: €30.7m). This was due mainly to the aforementioned build-up of positions by the Strategic Investments unit in capital markets business, which accounted for the largest share of spread risk, and secondarily to management of the liquidity reserve in the Treasury corporate centre. This risk concentration is consistent with the Deka Group's market price risk strategy. As in the previous year, bonds issued by German federal states, run-off institutions and development banks accounted for the majority of positions.

The VaR for general interest rate risk decreased compared with the 2016 year-end position (€14.8m) to €10.5m. The reduction is mainly the result of optimisation of interest rate hedging transactions by Treasury and a general reduction of interest rate option risks in capital markets business.

As in the previous year, currency risk resulted mostly from positions in British pounds and US dollars. It increased to a VaR of €4.8m (end of 2016: €3.7m) and so continued to be of minor significance.

Share price risk decreased compared with year-end 2016 (€3.2m) to €2.7m and thus likewise remained immaterial.

Counterparty risk

Current risk situation

The counterparty risk determined using credit value at risk, or CVaR (confidence level of 99.9% and a holding period of one year), declined moderately in the first half of the year to €1,110m (end of 2016: €1,156m). This trend is largely attributable to reduced migration risks, the reduction of bond positions by the Treasury corporate centre, position reductions in financing business and a slight reduction in volume in property funds. Furthermore, individual rating improvements for capital market counterparties and guarantee products in the Asset Management Securities business division and release of loan loss provisions in ship financing also helped to reduce risk. The risk-reducing effects were partly offset by the risk-increasing model adjustments mentioned above.

Gross loan volume increased by €13.9bn compared with the position at year-end 2016 (€124.3bn), reaching €138.2bn. This was mainly due to deposits at Deutsche Bundesbank and an increase in repo/lending volumes (particularly with central counterparties such as Eurex and LCH.Clearnet). Both factors led to an increase in gross loan volume in the financial institutions risk segment. In this context, loan volume in the funds risk segment also increased due to larger volumes of issued loan collateral. The increase was offset by declines in the savings banks and domestic public sector risk segments, largely because of lower demand for liquidity. The ship portfolio's share of gross loan volume decreased to 0.9% (end of 2016: 1.3%), partly because of sales. The market environment remains difficult, and the ship financing portfolio is therefore being closely followed and monitored on an ongoing basis.

Gross loan volume *(Fig. 17)*

€m	30 Jun 2017	31 Dec 2016
Financial institutions	73,352	57,629
Public sector Germany	10,937	12,364
Corporates	12,276	11,836
Savings banks	8,280	10,511
Funds (transactions and units)	15,620	13,567
Property risk	7,178	7,371
Transport and export finance	5,197	5,295
Energy and utility infrastructure	1,316	1,342
Other	4,088	4,422
Total	**138,245**	**124,336**

The expansion of business volume led to an increase in deductible items when converting from gross to net loan volume. The offsetting of reverse repo transactions had a particular impact in this respect. Therefore, net loan volume increased by only €6.9bn compared with the position at the end of 2016 to €56.9bn as at 30 June 2017. This was due first and foremost to larger deposits at Deutsche Bundesbank.

Loan volume in non-core business declined to a gross and net figure of €643m, partly due to the sale of bonds from the former public finance portfolio and securitisations. The remainder of the portfolio mainly consists of structured securities of the former liquid credits portfolio.

Net loan volume *(Fig. 18)*

€m	30 Jun 2017	31 Dec 2016
Financial institutions	25,995	16,270
Public sector Germany	2,402	3,646
Corporates	6,656	6,354
Savings banks	7,789	9,894
Funds (transactions and units)	8,169	7,630
Property risk	1,239	1,277
Transport and export finance	824	938
Energy and utility infrastructure	1,303	1,327
Other	2,496	2,596
Total	**56,874**	**49,931**

Due to the higher volume of repo lending and reverse repo activities with German, French and Luxembourg counterparties as well as the increase in central bank deposits, the loan portfolio was concentrated even more strongly on the eurozone, which accounted for 72.1% compared with 70.9% at the end of 2016. The gross loan volume attributable to Germany increased by €8.7bn to €63.2bn.

In EU countries outside the eurozone, gross loan volume was higher than at year-end 2016, largely due to an increase in reverse repo volume with British counterparties. In OECD countries outside the European Union, gross loan volume increased slightly compared with the level at 31 December 2016, mainly due to bonds with US counterparties.

The gross loan volume relating to borrowers in Italy, Spain, Ireland and Portugal increased slightly to €4.5bn compared with €4.1bn at the end of 2016. Counterparties from the aforementioned countries continued to account for 3.3% of overall gross loan volume. There continued to be no direct loan volume relating to borrowers classified under Greek country risk. The gross loan volume attributable to counterparties in Russia totalling €0.3bn fell slightly by €57m, with around 82% being secured by ECA guarantees issued by the Federal Republic of Germany. In view of the geopolitical situation, exposures in Japan, South Korea and Qatar are also being monitored closely at the present time. Exposures to the United Kingdom are likewise under observation given the likelihood of a hard Brexit. The country limit was already lowered in December 2016.

The gross loan volume remained focused primarily on the short-term segment. In the first half of 2017, the proportion of transactions with a residual maturity of less than one year fell slightly from 45.3% to 45.1%. The share of maturities of ten years or more declined to 3.6% compared with 4.2% at the end of 2016. The average legal residual term of the gross loan volume fell slightly, amounting to 2.7 years (end of 2016: 2.8 years).

The level of risk concentration in the loan portfolio declined slightly in the reporting period. At the end of June 2017, 17.5% (end of 2016: 19.6%) of total gross loan volume was attributable to borrower units with a gross limit of at least €2.5bn or an overall net limit of at least €1.0bn (counterparty clusters). However, there was no change in the number of counterparty clusters. Of the cluster portfolio, 27.7% related to counterparties from the domestic public sector, savings banks and other alliance partners. Only 10.4% of net loan volume related to counterparty clusters. This reflects, in particular, the higher proportion of collateralised transactions within the counterparty clusters.

The shadow banking portfolio has also been limited since the beginning of 2017. In accordance with EBA requirements, DekaBank distinguishes between shadow banking entities according to the principal approach and shadow banking entities according to the fallback approach. Therefore, while an overall limit is imposed on shadow banking entities, limits also depend on whether the principal or fallback approach is used. The existing limits at the level of individual counterparties remain unaffected. At 30 June 2017, around 2% of net loan volume related to shadow banking entities according to the principal approach (limit utilisation 89%) and less than 1% to shadow banking entities according to the fallback approach (limit utilisation 51%). The levels of utilisation are considered acceptable.

The average rating for the gross loan volume and for the net loan volume improved compared with year-end 2016 by one notch to a rating of 2 on the DSGV master scale. The probability of default averaged 12 bps for gross loan volume (end of 2016: 16 bps) and 11 bps for net loan volume (end of 2016: 17 bps). The Bank therefore still achieved its target rating of investment grade for the portfolio as a whole. Both the increase in volumes with counterparties with good ratings such as Deutsche Bundesbank and Eurex and the slight improvement in ratings at some major international banks after routine re-rating had a positive impact on the average rating. 88.9% of net loan volume remained in the same grouping (determined by rating class) as at the end of 2016.

Net loan volume by risk segment and rating *(Fig. 19)*

€m	Average PD in bps	Average rating 30 Jun 2017	30 Jun 2017	Average PD in bps	Average rating 31 Dec 2016	31 Dec 2016
Financial institutions	7	A	25,995	20	3	16,270
Savings banks	1	AAA	7,789	1	AAA	9,894
Corporates	12	2	6,656	14	2	6,354
Public sector international	4	A+	1,887	5	A+	1,887
Public sector Germany	1	AAA	2,402	1	AAA	3,646
Public infrastructure	79	7	476	39	5	568
Transport and export finance	236	9	824	284	10	938
Energy and utility infrastructure	47	5	1,303	71	6	1,327
Propery risk	11	2	1,239	18	3	1,277
Retail portfolio	4	AA–	133	5	A+	141
Funds (transactions and units)	13	2	8,169	14	2	7,630
Total	**11**	**2**	**56,874**	**17**	**3**	**49,931**

Operational risk

Current risk situation

The VaR for operational risk (confidence level of 99.9%, holding period of one year) decreased slightly from €231m at year-end 2016 to €227m. The moderately risk-increasing effect of the regular update of scenario assessments was mitigated by the still small number of new and in particular larger losses to be taken into consideration. The utilisation of allocated risk capital declined to 72.0% as at 30 June 2017 (end of 2016: 74.5%) and so remained at a non-critical level.

The OR loss potential identified in the Group-wide risk inventory increased to €55m (end of 2016: €50m). This reflects a trend across different business divisions and corporate centres towards increased risk assessments, against the backdrop of stricter regulatory requirements and heavier fines, coinciding with rising efficiency demands and cost pressures. In contrast to VaR, which is an upper limit for losses, with a specific probability that the limit will not be exceeded, loss potential is an expected value that results from the estimated frequency of occurrence and scale of losses of all OR scenarios in the Deka Group.

Liquidity risk

Current risk situation

The Deka Group continued to have ample liquidity throughout the reporting period. There were clear positive liquidity balances in all relevant maturity bands of the "combined stress scenario" funding matrix for periods of up to 20 years. This was also the case for the alternative stress scenarios examined and under the going concern approach.

As at 30 June 2017, the accumulated liquidity balance of the Deka Group's "combined stress scenario" funding matrix in the short-term range (up to one week) stood at €10.2bn (end of 2016: €4.6bn). In the maturity band of up to one month, the liquidity surplus totalled €14.2bn (end of 2016: €11.2bn), and in the medium to long-term range (three months) it was €22.6bn (end of 2016: €18.2bn).

The significant rise in the liquidity balance for maturity bands of less than one year reflects the expansion of money market refinancing, which was offset by mainly short-term investment of monies received.

A substantial part of the Group's liquidity generation and provision was again attributable to business with savings banks and funds. The Deka Group has a high liquidity potential that is readily convertible at short notice. The Group has access to a large portfolio of liquid securities, most of which are eligible as collateral for central bank borrowings, as well as to available surplus cover in the cover pool and corresponding repo transactions.

Combined stress szenario funding matrix of Deka Group as at 30 June 2017 *(Fig. 20)*

€m	D1	> D1 – 1M	> 1M – 12M	> 12M – 5Y	> 5Y – 20Y	> 20Y
Liquidity potential (accumulated)	13,957	19,785	2,466	– 180	20	49
Net cash flows from derivatives (accumulated) [1]	– 178	– 182	– 170	– 1,975	– 3,067	– 3,071
Net cash flows from other products (accumulated)	– 5,622	– 5,372	14,563	15,401	8,414	2,221
Liquidity balance (accumulated)	**8,156**	**14,232**	**16,860**	**13,247**	**5,367**	**– 801**
For information purposes:						
Net cash flows from derivatives by legal maturity (accumulated)	– 178	– 219	– 1,131	– 3,135	– 3,866	– 3,071
Net cash flows from other products by legal maturity (accumulated)	– 4,098	– 12,406	– 15,510	95	2,152	1,469
Net cash flows by legal maturity (accumulated)	**– 4,277**	**– 12,625**	**– 16,641**	**– 3,040**	**– 1,715**	**– 1,601**

[1] Including lending substitute transactions and issued CLNs

As at 30 June 2017, 61.3% of the Group's total refinancing related to repo transactions, money on call and time deposits, and other money market products. The remaining 38.7% of refinancing related to capital market products, primarily with longer maturity profiles, with bearer bonds making up by far the largest proportion of this. The refinancing profile for lending business was balanced in terms of maturity structure. Money market refinancing was broadly diversified across a range of investor groups. Most of the investors in money market refinancing are financial service providers such as clearing houses, stock exchanges and funds, or large banks and savings banks. Savings banks accounted for 13.9% of money market refinancing, while funds represented 21.3%.

The regulatory requirements of the German Liquidity Regulation (*Liquiditätsverordnung* – LiqV) were met throughout the period under review. The average liquidity ratio at Bank level, determined on a daily basis, was 1.70 during the first half of the year (previous year: 1.77). It fluctuated within a range of 1.59 to 1.78. The ratio stood at 1.77 at 30 June 2017 (end of 2016: 1.73). The LCR at Group level was 159.0% at 30 June 2017, and was thus significantly above the 80.0% minimum level stipulated for 2017.

Business risk

During the reporting period, the VaR of business risk fell substantially to €263m (end of 2016: €356m). This was mainly the result of model adjustments due to the updating of risk factors and the use of a VaR approach instead of the general surcharge previously applied in banking business. In the Securities business division, declining volatilities also had the effect of reducing risk.

Further risks

Shareholding risk and property risk

At 30 June 2017, the VaR related to shareholding risk totalled €26m (end of 2016: €20m). With a VaR of €7m (end of 2016: €19m), property fund risk likewise remains an immaterial risk for the Deka Group.

Other risks

Based on the tax authority's opinion set out in the Federal Ministry of Finance (BMF) circular "Tax treatment of cum/cum transactions" of 17 July 2017, tax risks exist in connection with relief from capital yields tax (*Kapitalertragsteuer*) resulting from share transactions around the dividend record date relating to the years 2013 to 2015. In the consolidated interim financial statements, DekaBank has considered all matters in line with the interpretation of the relevant taxation standards.

DekaBank has also initiated a voluntary investigation in order to evaluate whether its involvement enabled third parties to execute securities transactions around the dividend record date and abuse the tax system with so-called "cum-ex trades". This investigation is not yet complete.

In connection with supposed abetment of criminal tax law-related actions in Switzerland and Luxembourg, the German public prosecutor accuses employees of DekaBank subsidiaries of knowingly opening and maintaining accounts for customers accused of tax evasion. DekaBank is cooperating with the public prosecutor. The likely outcome of these legal proceedings cannot yet be assessed at present.

Structured capital market credit products

Structured capital market credit products comprise the securitisation portfolio of DekaBank's former Liquid Credits portfolio, which has not been considered to be strategic since 2009 and is being reduced while safeguarding assets. It is assigned to non-core business.

In terms of volume, this portfolio is no longer a significant part of DekaBank's overall portfolio, given that the business is being wound down. As a result of maturities and repayments, the net nominal value as at 30 June 2017 was only €249.1m (end of 2016: €319.2m).

At 30 June 2017, 99.0% of the portfolio (end of 2016: 99.0%) consisted of investment-grade securities. The remaining portfolio continues to focus on western Europe. As at the end of 2016, 96.4% of the securitisations related to the European market (end of 2016: 91.9%).

Based on current expectations, around half of the remaining securitised positions will be repaid or will expire by the beginning of 2020.

Based on a confidence level of 99% and a holding period of ten days, as at 30 June 2017, the credit spread risk for the securitisation positions in non-core business totalled €1.7m (end of 2016: €1.3m).