Interim management report 2017

At a glance

DekaBank – the *Wertpapierhaus* for the savings banks – remains on a stable footing. In the first half of 2017, the Deka Group generated an economic result of €241.3m, slightly higher than the comparative figure for 2016 (€229.8m). Net commission income in particular exceeded the previous year's figure.

Net sales to both retail and institutional customers in the first six months of the year were significantly higher than in the prior-year period, thanks to sustained positive growth trends in 2017. Both funds and retail certificates exceeded the previous year's figures, helped by strong demand for securities products. This, together with positive performance, meant that total customer assets grew to €270.4bn compared with €256.8bn at year-end 2016.

Investments in Deka's business model and product quality continue to pay off. Initiatives in digital multi-channel management were a priority on the retail side. In institutional business, activities focused on the expansion of fund solutions via the Deka Alternative Investments (DALI) platform, including advisory services based on this system.

The Deka Group safely complied with regulatory requirements during the first six months of the current year. The Common Equity Tier 1 capital ratio (fully loaded) improved to 18.0% (end of 2016: 16.7%). The leverage ratio (fully loaded) of 4.7% was slightly below the level seen at the end of 2016 (5.1%). Liquidity was adequate at all times and the risk position was non-critical throughout.

The Deka Group expects its financial position to remain stable and anticipates an economic result on a par with the previous year for 2017.

Information about the Deka Group

Legal structure and corporate governance

The Deka Group reorganised its divisional structure as of 1 January 2017 in order to implement the adopted strategy effectively for the future. Key aspects of the reorganisation include efforts to strengthen governance and achieve an even clearer separation between banking business and asset management. Activities will henceforward be divided into five business divisions.

The Asset Management Securities business division comprises all the Deka Group's activities relating to capital-market based asset management for private and institutional customers. As well as investment fund solutions and ETFs, the product portfolio also includes advisory, management and asset management mandates as well as asset servicing for institutional customers.

The Asset Management Real Estate business division focuses on providing property investment products for private and institutional investors. This business division also covers the purchase and sale of properties and management of such assets.

The new Asset Management Services business division is focused on providing banking services for asset management. The services range from managing custody accounts for customers to custodial services for investment funds. Especially by providing multi-channel solutions, the sales departments are additionally supported.

The Capital Markets business division is the central product, solution and infrastructure provider, while also providing services in the Deka Group's customer-focused capital markets business. Its role as a securities and risk hub also contributes to the Group's success.

The Financing business division, while providing refinancing services to savings banks, also engages in highly focused financing activities (real estate, infrastructure, transport and export financing).

Business activities that are being discontinued have been pooled in non-core business since 2009.

At divisional level, the comparative figures in the segment reporting for the first half of 2016 have been adjusted to the new divisional structure. They therefore do not correspond to the figures published in the previous year.

Deka Group profile and strategy

As the *Wertpapierhaus* for the savings banks, the Deka Group's strategy and activities are geared to supporting the savings banks on a sustained basis and upholding their vital role in helping German households build up their assets. To achieve this end, the Deka Group continues to develop its comprehensive range of investment and asset management solutions, modelling these on the requirements of the savings banks and their customers.

Significant strategic measures during the reporting period

Support for savings banks in retail business

In retail business, the Deka Group aims to encourage more people to invest in securities and hence to promote a securities culture in Germany, working in close cooperation with the savings banks and the German Savings Banks Association (DSGV). This also means supporting savings banks in developing their online securities business, allowing helpful integration of branch-based and online sales in securities business. In association with this, the provision of high-quality stock market and securities information was expanded in the reporting period. Mobile services were also developed further. The savings bank apps "Sparkasse" and "Sparkasse+", which are compatible with all major operating systems, enable users to display their custody account, show transactions and buy and sell custody-eligible funds and certificates. Further progress was achieved on the technical integration of S Broker, following the full takeover in the previous year, as well as extending sales cooperation.

Expansion of services in institutional business

In institutional business, the main focus was on expanding the product platform for asset servicing. Fund solutions for AIFM-regulated alternative asset classes, which are centralised within Deka Alternative Investments (DALI), were extended to include three new maturity funds for the higher-yielding bond segment. The three funds focus on the corporate bonds, high yields and emerging markets bonds asset classes. In addition, a new real estate fund was launched for savings banks' own investments, offering continuous distributions from a Core/Core+ real estate portfolio diversified by region and type of use. Infrastructure services for institutional customers were also enhanced. A revised, more standardised outsourcing model is therefore now available for the market conformity check required by the regulator, which is also attractive for institutions with small business volumes.

Quality campaign and awards

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

In particular, it was named overall winner of the "Capital-Fonds-Kompass 2017" awards for the first time, and received the highest possible rating of five stars for the fifth time in a row. In the category of "fund quality", which accounts for half of the overall verdict, Deka was ranked first among the major German universal providers in 2017. In the ranking produced by Scope Analysis (formerly FERI Eurorating Services) and Tetralog Systems for the prestigious business magazine for 2017, the performance of more than 4,500 funds of the top 100 capital management companies was analysed over one, three and five years.

At the Euro-FundAwards hosted by the publishing company Finanzen Verlag, 13 funds and three ETFs from the Deka Group achieved a total of 32 top ratings across various categories this year. This was a substantial increase compared with the previous year (14 top ratings).

Another major success was Deka Immobilien's award for "Best Asset Manager Global Real Estate Funds for Private Investors" at the Scope European Fund Award 2017. The open-ended property fund Deka-ImmobilienGlobal was named the best globally investing fund for private investors for the seventh time in a row.

In the real estate fund ratings published by Scope in June 2017, the WestInvest InterSelect fund improved by two rating notches to a AIF. Deka-ImmobilienNordamerika was rated for the first time, achieving a rating of (P) a AIF. As in the previous year, the Deka Group's asset management quality in the real estate segment was assigned the very good rating AA+ AMR.

In the "Scope Rating Champions" published by "Fonds professionell" magazine, Deka was the only German asset manager in 2017 among the top ten large companies with at least 25 rated funds. The ranking is based on a regular analysis by the Scope rating agency covering 5,500 investment funds authorised for sale in Germany.

Economic report

Economic environment

The Deka Group's business activities in the first half of 2017 were influenced by the continuing low-interest rate policy of the European Central Bank (ECB) on the one hand, and the positive performance of securities markets on the other hand. In securities-related asset management, the bullish trend on equity markets, which broke new records in June, had a particular impact. At the same time, net inflows into mutual funds increased significantly.

For the financing business and short-term liquidity, on the other hand, the environment remained difficult owing to persistently low capital market interest rates.

Macroeconomic conditions

Global economic growth accelerated slightly in the first months of the current year, initially driven in particular by positive trends in Europe and Asia. After a weak start to the year, the US economy also gathered pace somewhat in the second quarter.

According to estimates by the European statistical authority Eurostat, gross domestic product in the eurozone increased by 0.6% quarter on quarter in the first three months of 2017. Spain recorded particularly dynamic growth. The main sentiment indicators for the eurozone also signalled continuing strong economic momentum. Furthermore, the labour market trend is encouraging. The eurozone's unemployment rate was 9.3% in May, the lowest level since March 2009. Continued British division around Brexit is beginning to make its mark on growth rates and is likely to dampen sentiment for the foreseeable future. However, the effects have not spilled over into other regions so far.

The German economy gathered pace at the start of 2017. According to data from the Federal Statistical Office, gross domestic product (GDP) was 0.6% higher in the first quarter than in the fourth quarter of 2016, adjusted for inflation and seasonal and calendar effects. Compared with the previous quarter, positive momentum came from both domestic and foreign markets. Among other factors, mild winter weather allowed a comparatively high level of construction activity. The mood in the German economy is remarkably positive given the existing uncertainties. The ifo Business Climate Index, for instance, reached a new all-time high in the first six months of 2017.

In China, the various economic indicators presented a mixed picture in the first half of the year. Overall, however, the process of structural change continued, accompanied by high economic growth. For the year as a whole, GDP is expected to grow by around 6.7%. The Chinese central bank continues to keep a tight rein on money market liquidity to curb speculative activity in the 'shadow banking' market.

The economic performance of emerging market countries was mainly encouraging in the first quarter. Economies in Central Europe recorded particularly strong growth, thanks to rising EU investment and robust private consumption. Asia experienced mainly dynamic growth, though the effects of India's cash reform became increasingly apparent.

Sector-related conditions

Trends in money and capital markets

At its meeting in June 2017, the ECB reaffirmed its intention to maintain its expansionary monetary policy for the time being. In its macroeconomic projections published at the end of the first six months of the year, the ECB forecast slightly stronger economic growth, but a slower rise in inflation. While further cuts in the key interest rate do not appear to be on the ECB's agenda, there are no signs of a change of course on monetary policy either. The bond purchase programme is being continued, with the volume reduced to €60bn per month since March 2017.

The US Federal Reserve (Fed) raised the key interest rate in two steps in March and June 2017 by a total of 50 basis points to a new range of 1.00% – 1.25%. Due to lower inflation expectations, yields on US government bonds remain low despite increased monetary policy tightening.

While remaining at an extremely low level, German government bond yields tended slightly higher in the first half of 2017. In the case of short-dated Bunds, yields remained deep inside negative territory. For ten-year Bunds they were positive, but still substantially below the 0.5% mark. Corporate bond spreads remained at historically low levels in view of positive economic data and mainly strong quarterly results.

The new issuance volume of covered bonds in the first six months of 2017 lagged behind the prior-year period, despite a noticeable upward trend in May. Due to the low level of new issuance activity, the ECB is having increasing difficulty achieving its desired purchase volume in this segment. Furthermore, the existing portfolio is being increasingly reduced by maturities and needs to be replenished by reinvestment.

Equity markets remained bullish as expected, while volatility fell to very low levels. Rising corporate profits and the positive trend of sentiment indicators brought confidence, despite continuing political uncertainties. The German stock index (DAX) hit a new all-time high in June 2017, reaching 12,889 points, while in the USA the Dow Jones index also posted a new record that same month. Expectations of a boost from a more expansionary fiscal policy in the USA substantially outweighed concerns over a protectionist attitude to trade policy by the Trump government. The EURO STOXX 50 rose strongly, particularly from the end of February to May 2017. It then tended sideways, reaching 3,442 points on 30 June 2017, a 4.6% increase on the level as at year-end 2016.

Trends in property markets

The basic situation on European commercial property markets was largely unchanged in the first half of 2017: on the investment side, a sustained high level of demand continued to meet with scarce supply, especially in the market for core real estate. Downward pressure on initial yields in Europe therefore continued, as expected.

European rental markets benefited from the ongoing economic upturn and declining unemployment. In central London, demand remained below average following the Brexit vote. Vacancy rates again declined slightly across Europe. At around 15%, Milan and Warsaw remain among the markets with the highest vacancy rates. In Warsaw, lively construction activity is likely to drive vacancy rates higher still. Alongside Barcelona, Brussels recorded the highest rental growth after years of stagnation.

Vacancies of office properties declined further at central locations in Germany. In especially popular markets such as parts of Berlin, but also Munich, Stuttgart and other German cities, there is now a lack of high-quality office space. In the retail sector, after a strong rise over several years, rentals in prime locations stabilised in the first half of 2017 at historically high levels, or even declined slightly.

In Germany, the first three months of 2017 were the strongest first quarter on record, with a realised transaction volume of more than €12bn. In politically turbulent times, many investors regard Germany as a stable and safe haven. Continuing high levels of demand led to a further decline in yields and a corresponding increase in capital values.

Yields on European commercial properties again declined slightly, though yield spreads between property and government bonds remained at historically high levels.

During the first half of 2017, demand for class A rental space in the USA was weaker compared with the same period of the previous year. The highest demand was recorded at locations in the Sun Belt and on the West Coast. Vacancy rates in the class A segment increased marginally, accompanied by an increase in completions. Some markets, including Seattle and Los Angeles, recorded further rental growth in the first quarter. Rents remained largely stable in the second quarter.

In the Asia-Pacific region, demand for space was stable compared with the previous quarters. In Shanghai and Singapore, many tenants relocated to affordable new buildings in the Central Business District. The same was true of the Australian cities, where substantial rental incentives were offered. The strongest demand was generated by companies in the telecommunications, media and technology segments, as well as local financial service providers and, increasingly, coworking providers. Vacancies stagnated in most locations, averaging just under 10% in the region as a whole. The strongest rental growth was recorded in Sydney, Brisbane, Osaka and Hong Kong. Singapore saw a further slight decline in rentals.

Investor attitudes

Investor interest in mutual funds increased considerably compared with the previous year. The mutual securities funds tracked by the BVI recorded a total net inflow of €30.5bn in the period from January to May 2017, compared with €5.5bn in the prior-year period. Having fallen into negative territory in the previous year, equity and bond funds recorded a net inflow of funds of €4.6bn and €8.0bn respectively. However, the highest growth in absolute terms was achieved by mixed funds, where net inflows increased to €15.7bn. Net inflows for mutual property funds were €2.4bn. Sales of special funds for institutional investors increased very significantly compared with the first five months of 2016 (€37.4bn) to €47.9bn.

Regulatory environment

The regulatory environment changed only slightly compared with the situation presented in the 2016 Group management report.

Regulatory topics

Agreement has still not been reached concerning the framework for determining the minimum capital requirement for counterparty credit risks, which are currently being revised by the Basel Committee as part of the forthcoming Basel IV reforms. In particular, the level of the so-called output floor remains a matter of dispute. It is also planned to place heavy restrictions on use of the internal ratings-based (IRB) approach. This would mean that the majority of Deka's portfolios would need to be assessed exclusively using the new Credit Risk Standardised Approach (CRSA). Based on the current state of play in negotiations on Basel IV, the restriction on using internal models may yet be toned down. However, it remains unclear when Basel IV will be applied for the first time in the area of counterparty risk.

Another issue to be addressed in the context of Basel IV is the Fundamental Review of the Trading Book (FRTB), many details of which have yet to be decided. Since the implementation period is expected to run until 2021, there is no immediate requirement for action in 2017. The new rules are expected to lead to an increase in risk-weighted assets (RWA).

As part of the revision of European capital and liquidity requirements (CRR II/CRD V), it is planned to tighten up the rules on large exposures, which would mean large exposure risks being handled more restrictively. The rules are expected to be applied for the first time in 2021.

In the review of capital requirements for operational risk and the associated introduction of the Standardised Measurement Approach (SMA) as a new calculation method, final calibration is still awaited. These new rules are also expected to come into force no sooner than 2021. All in all, higher costs can be expected due to increased requirements for capture of loss data and parallel analysis of old and new calculation models.

With the implementation of the Bank Recovery and Resolution Directive (BRRD), banks are obliged to adhere to minimum requirements on holding own funds and eligible liabilities for the purposes of loss absorption and recapitalisation in the event the bank is wound up (Minimum Requirement for Eligible Liabilities – MREL). The amount of this minimum requirement will be determined by the resolution authority on the basis of the recovery plan, at the level of individual institutions. A mandatory MREL to be observed by DekaBank has not yet been specified.

The uniform European Deposit Insurance Scheme (EDIS) continued to be negotiated at EU level. The German government is against the communitisation of deposit protection.

Between March and May 2017, the ECB conducted an EU-wide stress test (sensitivity analysis of interest rate risk in the banking book) among major institutions including DekaBank. Institutions are expected to be informed of the results – which will be used to calculate the SREP ratios (capital ratios set by the supervisory authority in the Supervisory Review and Evaluation Process) relevant to 2018 – in the third quarter of 2017.

Furthermore, in February 2017 the European Banking Authority (EBA) announced that the EBA stress test for 2018 will be carried out at the beginning of that year. It is planned to announce the stress test results in mid-2018. DekaBank is not among the banks taking part in the EBA stress test.

Nevertheless, as a bank supervised by the ECB, DekaBank will be subjected to an ECB stress test in 2018. The stress test will be conducted according to the EBA method. The results of the ECB's internal stress test, unlike those of the EBA banks, will not be published. They will however be included in the calculation of SREP ratios relevant to 2019.

Product and performance-related regulatory proposals

From 3 January 2018 onwards, national legislation implementing the Markets in Financial Instruments Directive (MiFID) II and the Markets in Financial Instruments Regulation (MiFIR) will apply. MiFID II and MiFIR impose new requirements for investor protection and market infrastructure, and affect almost all of the Deka Group's portfolio of products and services. New requirements for securities business mean that a number of changes have to be made at savings banks, at DekaBank and at Deka Group fund companies. Among other things, they concern record-keeping for customer orders, the definition and ongoing review of target markets and requirements for the provision and receipt of inducements. DekaBank is implementing the requirements of MiFID II and MiFIR in close cooperation with the DSGV. For DekaBank this will lead, in particular, to higher costs for securities and derivatives trading and also liability risks.

Tax policy developments

The German Investment Tax Reform Act will come into force on 1 January 2018. This will fundamentally change the taxation of investment funds in Germany. In future, both mutual funds and special funds will be liable to corporation tax on income from domestic equities, rental income and gains on property disposals. To compensate for taxation of the fund, investors will receive partial exemptions which will be taken into account in withholding tax, so that the tax burden for private investors should not increase overall. Subject to certain conditions, the regulations for special investment funds will remain unchanged. There will be a transitional period for property funds which guarantees that changes in the value of a property remain tax-free until the law comes into force, provided that the property was held for a period of at least ten years between acquisition and disposal. Deka will incur expenses for implementation of the reform.

Another tax change relates to the grandfathering of old investment fund units for private investors. Gains achieved up to 31 December 2017 are protected by grandfathering rules. Gains realised after 1 January 2018 will be subject to the new tax regime to the extent they exceed a tax-exempt amount of €100,000.

Business development and profit performance in the Deka Group

Overall statement on the business trend and the Group's position

The Deka Group's economic result increased by 5.0% compared with the first half of 2016 (€229.8m), to reach €241.3m. This was mainly due to a 6.6% increase in income, partly attributable to a welcome rise in net commission income. This positive development was mainly thanks to an increase in total customer assets, helped both by good net sales and performance.

Expenses increased slightly compared with the prior-year period. This was primarily due to higher personnel expenses following the acquisition of S Broker and collective salary increases. Operating expenses were also above the level of the comparison period, in particular due to higher consulting expenses to meet regulatory requirements.

The Deka Group's net sales performance reached €12.6bn, a significant increase compared with the prior-year period (€9.0m). Of this amount, €5.7bn (previous year: €3.9bn) came from sales to retail customers and €6.9bn (previous year: €5.1bn) from sales to institutional customers. The improvement in net sales was attributable to mutual funds, where there was a particular focus on equity funds, and special funds. Increased net sales performance together with good performance meant that total customer assets grew to €270.4bn compared with €256.8bn at year-end 2016.

Total customer assets Deka group *(Fig. 1)*

€m	30 Jun 2017	31 Dec 2016	Change	
Total customer assets Deka Group	**270,438**	**256,805**	13,633	5.3%
by customer segment				
Retail customers	135,221	128,650	6,571	5.1%
Institutional customers	135,216	128,155	7,061	5.5%
by product category				
Mutual funds and fund-based asset management	135,169	130,471	4,698	3.6%
Special funds and mandates	109,692	102,934	6,758	6.6%
Certificates	16,714	15,079	1,635	10.8%
ETF	8,863	8,321	542	6.5%

The Deka Group safely complied with all regulatory requirements throughout the first half of 2017. Common Equity Tier 1 capital (fully loaded) increased to €4.2bn, mainly due to reinvestment of profits from 2016. Risk-weighted assets decreased to €23.3bn. This was due especially to a slight reduction in counterparty risk. At 18.0%, the Common Equity Tier 1 capital ratio (fully loaded) rose again compared with the level at the end of 2016 (16.7%). The leverage ratio (fully loaded) was 4.7%. The minimum requirements for the liquidity coverage ratio (LCR) were also met at all times.

Ratings

DekaBank continues to enjoy good ratings, including by comparison with other German commercial banks. In February 2017, Standard & Poor's (S&P) raised the issuer rating from A to A+ with a stable outlook thanks to the sustainable integration of DekaBank into the *Sparkassen-Finanzgruppe*. The short-term rating of A-1 with a stable outlook was confirmed. This reflects the high strategic importance of the Deka Group to the savings bank sector as well as the adequacy of the capital and liquidity base for its business model. At the end of June 2017, the agency Moody's confirmed DekaBank's long-term senior unsecured and issuer rating of Aa3 with a stable outlook. The short-term rating stands at P-1.

Profit performance of the Deka Group

The Deka Group's economic result in the first half of 2017 was €241.3m, 5.0% higher than in the comparable period of the previous year (€229.8m).

Income totalled €759.8m, an increase of 6.6% compared with the first six months of 2016 (€712.7m). One reason for this was the improvement in net commission income due to the increase in total customer assets. Expenses were also higher compared with the first half of 2016 (€482.9m), and amounted to €518.5m. This was primarily due to higher personnel and operating expenses.

At €78.9m, net interest income was at a similar level to the previous year (€75.1m). A key part of net interest income was the earnings contribution from specialised and property financing in the Financing business division, as well as the earnings contribution from strategic investments in the Capital Markets business division.

Net risk provisioning turned positive, rising from €–89.6m in the previous year to €12.6m. Net risk provisioning in lending business, which was heavily negative in the first half of 2016 because of necessary allocations to loan loss provisions for existing ship financing loans, was almost balanced in the first half of the current year at €0.8m. Some allocations were offset by the release of provisions of a similar amount that were no longer needed. Net risk provisioning for securities in the categories 'loans and receivables' (LaR) and 'held to maturity' (HtM) was positive at €11.8m, in contrast to the previous year (€–15.5m), owing to the partial release of a portfolio provision.

The 13.1% increase in net commission income to €573.2m (previous year: €506.9m) essentially reflects the rise in portfolio-related commission, based on higher total customer assets compared with the previous year.

Net financial income, consisting of the financial result from trading book portfolios, banking book portfolios and risk provisions for securities, amounted to €78.7m in the first half of 2017, substantially below the previous year's figure of €282.3m. This prior-year figure was, however, strongly influenced by positive valuation effects.

At €167.5m, net financial income from trading book portfolios fell slightly short of the figure for the first six months of the previous year (€189.3m) and mainly comprises the contribution from Trading & Structuring and Collateral Trading.

Net financial income from banking book portfolios was €–100.6m, considerably below the previous year's figure of €108.5m. The result was reduced by the increase of €100.0m in the general provision to cover potential risks. The general provision is reflected in the economic result outside IFRS profit or loss and without specific allocation to business divisions. The prior-year figure (€108.5m) was boosted by partial release of the general provision formed in previous years and by positive valuation results for securities portfolios in the wake of spread trends.

Other operating income, which increased significantly compared with the prior-year period (€–77.5m) to €28.2m, includes actuarial gains relating to pension provisions amounting to €33.7m, due to an increase in the actuarial interest rate from 1.95% at the end of 2016 to 2.2%. The prior-year figure included actuarial losses of €114.8m in connection with pension provisions. Actuarial effects are not included in the IFRS income statement as they are posted directly in equity (revaluation reserve). However, they are reported in the economic result as profit or loss for the period.

Personnel expenses increased as expected by 8.1%, reaching €261.4m compared with €241.7m in the first half of 2016. This was due to collectively agreed salary increases as well as an increase in the number of employees following the integration of S Broker.

Higher consulting expenses for projects to meet regulatory requirements are the main reason why operating expenses (excluding bank levy, depreciation and amortisation) of €213.6m in the first half of 2017 exceeded the six-month figure for 2016 (€197.7m) by 8.1%. As in the previous year, the full-year contribution (€13.7m) to the deposit protection reserve of the Landesbanken and Girozentralen was recognised in the figures for the first six months, as was the European bank levy, which amounted to €35.3m (first half of 2016: €34.4m).

At €8.8m, depreciation and amortisation were at a similarly low level to the previous year (€9.1m) and related mainly to intangible assets.

The cost/income ratio, that is to say, the ratio of total expenses (excluding restructuring expenses) to total income (before risk provisions in lending business), could not match the previous year's figure due to the effects mentioned above and stood at 68.4% in the first half of 2017 (previous year: 61.4%). At 10.7%, the return on equity before tax was virtually the same level year on year.

Profit performance Deka Group *(Fig. 2)*

€m	1st half 2017	1st half 2016	Change	
Net interest income	78.9	75.1	3.8	5.1%
Provisions for loan losses	0.8	–74.1	74.9	101.1%
Net commission income	573.2	506.9	66.3	13.1%
Net financial income [1]	78.7	282.3	–203.6	–72.1%
Other operating income	28.2	–77.5	105.7	136.4%
Total income	**759.8**	**712.7**	47.1	6.6%
Administrative expenses (including depreciation)	519.1	482.9	36.2	7.5%
Restructuring expenses	–0.6	0.0	–0.6	n.a.
Total expenses	**518.5**	**482.9**	35.6	7.4%
Economic result	**241.3**	**229.8**	11.5	5.0%

[1] Net financial income includes risk provisions for securities in the lar and htm categories of approximately €11.8m (previous year: €–15.5m).

Business development and profit performance in the business divisions

Business development and profit performance in the Asset Management Securities business division

The Asset Management Securities business division more than doubled net sales year on year and total customer assets increased by €10.8bn compared with the end of the previous year to €220.0bn. At €168.8m, the division's economic result significantly exceeded the previous year's figure of €96.1m.

Net sales performance and total customer assets

Net sales performance in the Asset Management Securities business division totalled €7.6bn in the first six months of the current year and thus more than doubled compared with the first half of 2016 (€3.7bn). Net sales to retail customers totalled €1.9bn (previous year: €0.5bn). Business with institutional customers amounted to €5.6bn, likewise exceeding the previous year's figure (€3.2bn).

Mutual securities funds, including fund-based asset management, achieved net sales of €2.1bn (previous year: €1.0bn). Propensity to invest was reflected above all in direct sales of mutual funds, where a positive balance of €1.9bn was achieved. However, in fund-based asset management, the *Deka Vermögenskonzept* (Deka Wealth Concept) and *Deka-BasisAnlage* (Deka Basic Investment) could not match the previous year's high figures.

ETFs achieved net sales of €0.2bn, below the previous year's figure of €0.5bn. Net sales of special securities funds, master funds and advisory/management mandates reached a combined total of €5.3bn, compared with €2.3bn in the previous year. All product categories achieved significantly positive results.

Net sales Securities business division *(Fig. 3)*

€m	1st half 2017	1st half 2016
Net sales Securities business division	**7,560**	**3,735**
by customer segment		
Retail customers	1,941	523
Institutional customers	5,619	3,211
by product category		
Mutual funds and fund-based asset management	2,093	1,006
ETF	181	478
Special funds and mandates	5,286	2,250

At 30 June 2017, the business division's total customer assets stood at €220.0bn, a 5.2% increase on the figure at 31 December 2016 (€209.2bn). This rise was due to net inflows and also the positive performance of equities, special funds and master funds in particular.

Total customer assets Securities business division *(Fig. 4)*

€m	30 Jun 2017	31 Dec 2016	Change	
Total customer assets Securities business division	**220,036**	**209,242**	10,794	5.2%
by customer segment				
Retail customers	100,406	96,169	4,237	4.4%
Institutional customers	119,630	113,073	6,557	5.8%
by product category				
Mutual funds and fund-based asset management	107,339	103,857	3,482	3.4%
therof equity funds	27,792	26,061	1,731	6.6%
thereof bond funds	35,283	35,663	−380	−1.1%
thereof mixed funds	15,653	15,335	318	2.1%
ETF	8,863	8,321	542	6.5%
Special funds and mandates	103,834	97,064	6,770	7.0%

Profit performance in the Asset Management Securities business division

At €168.8m, the business division's economic result was significantly higher than the comparative figure for the prior-year period (€96.1m). This was mainly attributable to a substantial rise in net commission income. Expenses amounted to €187.1m, roughly in line with the previous year (€185.2m).

Profit performance Securities business division *(Fig. 5)*

€m	1st half 2017	1st half 2016	Change	
Net interest income	9.2	7.1	2.1	29.6%
Provisions for loan losses	0.0	0.0	0.0	n.a.
Net commission income	353.7	288.8	64.9	22.5%
Net financial income	2.7	−6.7	9.4	140.3%
Other operating income	−4.7	−4.5	−0.2	−4.4%
Total income	**360.8**	**284.7**	76.1	26.7%
Administrative expenses (including depreciation)	187.7	185.2	2.5	1.3%
Restructuring expenses	−0.6	0.0	−0.6	n.a.
Total expenses	**187.1**	**185.2**	1.9	1.0%
Economic result excluding Treasury function	**173.7**	**99.6**	74.1	74.4%
Treasury function	−4.9	−3.4	−1.5	−44.1%
Economic result	**168.8**	**96.1**	72.7	75.7%

Business development and profit performance in the Asset Management Real Estate business division

The Asset Management Real Estate business division continued its stable growth in the first half of 2017. However, the economic result of €27.4m fell short of the mid-year figure for 2016 (€36.1m).

Net sales performance and total customer assets

Mutual property funds accounted for €1.3bn of the business division's net sales performance of €1.3bn (previous year: €1.4bn). As in previous years, the business division adhered to the proven strategy of quota setting for sales to retail customers, allowing it to control the flow of funds into products efficiently, given the strong demand. This meant that the Group was again able to prevent excessive volumes of liquidity and resulting pressure to invest. In the case of special funds, individual property funds and credit funds, inflows and scheduled repayments balanced each other out (previous year: €0.1bn).

Net sales Real Estate business division *(Fig. 6)*

€m	1st half 2017	1st half 2016
Net sales Real Estate business division	**1,303**	**1,386**
by customer segment		
Retail customers	1,321	1,320
Institutional customers	–18	66
by product category		
Mutual property funds	1,330	1,262
Special funds and individual property funds	–28	124

The Asset Management Real Estate business division's total customer assets rose by 3.7% to €33.7bn (end of 2016: €32.5bn), of which €27.8bn related to mutual property funds. Deka Immobilien ranked second among providers of open-ended mutual property funds in Germany, with a market share of 31% as measured by net fund assets according to the BVI's methodology as at 31 May 2017. The growth in total customer assets is attributable to net sales and also gains on existing products, which were however offset by distributions at the beginning of the year.

Total customer assets Real Estate business division *(Fig. 7)*

€m	30 Jun 2017	31 Dec 2016	Change	
Total customer assets Real Estate business division	**33,687**	**32,484**	1,203	3.7%
by customer segment				
Retail customers	25,946	24,781	1,165	4.7%
Institutional customers	7,741	7,703	38	0.5%
by product category				
Mutual property funds	27,830	26,614	1,216	4.6%
Special funds and individual property funds	5,858	5,870	–12	–0.2%

Transactions with a volume of €2.4bn were realised in the first half of 2017. Of this amount, purchases accounted for €2.1bn and sales for €0.3bn. Purchases were broadly diversified in both geographical and sectoral terms.

Profit performance in the Asset Management Real Estate business division

The economic result of the Asset Management Real Estate business division stood at €27.4m in the first half of 2017, compared with €36.1m in the prior-year period. The largest income component is net commission income, though this was below the previous year's level due to lower acquisition and construction fees in the first half of 2017. The slight increase in expenses was driven primarily by higher project and personnel expenses. The latter were partly the result of the growing property portfolio, which increased by €1.2bn.

Profit performance Real Estate business division *(Fig. 8)*

€m	1st half 2017	1st half 2016	Change	
Net interest income	2.0	1.9	0.1	5.3%
Provisions for loan losses	0.0	0.0	0.0	n.a.
Net commission income	91.1	96.3	−5.2	−5.4%
Net financial income	−0.7	−0.3	−0.4	−133.3%
Other operating income	0.3	1.0	−0.7	−70.0%
Total income	**92.7**	**98.9**	−6.2	−6.3%
Administrative expenses (including depreciation)	63.9	61.6	2.3	3.7%
Total expenses	**63.9**	**61.6**	2.3	3.7%
Economic result excluding Treasury function	**28.9**	**37.3**	−8.4	−22.5%
Treasury function	−1.4	−1.2	−0.2	−16.7%
Economic result	**27.4**	**36.1**	−8.7	−24.1%

Business development and profit performance in the Asset Management Services business division

The new Asset Management Services business division, established on 1 January 2017, achieved an economic result of €10.6m (previous year: €59.8m) in the first six months of the current year.

Business development in the Asset Management Services business division

Assets under custody, that is to say, the entire assets held by the Deka Group in its capacity as custodian bank, increased by 3.4% compared with year-end 2016 (€187.2bn), reaching €193.5bn at 30 June 2017. The number of securities accounts increased by 2.0% in the first half of 2017 to approximately 4.374m.

Profit performance in the Asset Management Services business division

The Asset Management Services business division's economic result amounted to €10.6m. The comparative prior-year figure was €59.8m. However, the latter included positive effects of €36m resulting from the acquisition of S Broker. The largest income component was net commission income amounting to €81.0m (previous year: €70.7m). This was offset by administrative expenses of €73.2m (previous year: €49.9m). The increase was largely due to the expansion of digital multi-channel management and the first-time recognition of S Broker.

Profit performance Asset Management Services *(Fig. 9)*

€m	1st half 2017	1st half 2016	Change	
Net interest income	1.5	0.0	1.5	n.a.
Provisions for loan losses	0.0	0.0	0.0	n.a.
Net commission income	81.0	70.7	10.3	14.6%
Net financial income	0.5	2.6	−2.1	−80.8%
Other operating income	1.6	37.0	−35.4	−95.7%
Total income	**84.6**	**110.4**	−25.8	−23.4%
Administrative expenses (including depreciation)	73.2	49.9	23.3	46.7%
Total expenses	**73.2**	**49.9**	23.3	46.7%
Economic result excluding Treasury function	**11.4**	**60.5**	−49.1	−81.2%
Treasury function	−0.7	−0.7	0.0	0.0%
Economic result	**10.6**	**59.8**	−49.2	−82.3%

Business development and profit performance in the Capital Markets business division

In the first half of 2017, the Capital Markets business division again achieved a good economic result of €144.6m (previous year: €166.2m). The business division operates as a product, solution and infrastructure provider, based on a balanced business and service portfolio.

Business development in the Capital Markets business division

In the continuing low interest rate environment, the Collateral Trading unit achieved a result on a par with the previous year. Commission business lagged behind the comparative figure, but again met expectations. The Trading & Structuring unit – including the earnings contribution from its management of the Bank's strategic investments – in total matched the comparative figure for 2016 thanks to continuing customer demand. Due to market conditions, slightly higher income was generated by the Bank's strategic investments compared with the previous year. Net sales in certificates business amounted to €3.7bn, close to the previous year's figure of €3.9bn. Of this total, €1.3bn (previous year: €1.9bn) related to institutional and €2.4bn (previous year: €2.0bn) to retail customers.

Profit performance in the Capital Markets business division

At €144.6m, the business division's economic result was lower than in the previous year (€166.2m). The prior-year figure included a positive special effect of around €11m due to incoming payments of a receivable that was previously written off. The other earnings components were unable to offset the moderate decline in net commission income. Net financial income fell slightly by 1.4% compared with the first half of 2016. The decline in income was offset by a slight reduction in expenses to €79.6m.

Profit performance Capital Markets business division *(Fig. 10)*

€m	1st half 2017	1st half 2016	Change	
Net interest income	17.9	21.2	–3.3	–15.6%
Provisions for loan losses	0.0	0.1	–0.1	–100.0%
Net commission income	32.5	37.5	–5.0	–13.3%
Net financial income	187.2	189.8	–2.6	–1.4%
Other operating income	1.0	9.7	–8.7	–89.7%
Total income	**238.6**	**258.4**	–19.8	–7.7%
Administrative expenses (including depreciation)	79.6	82.3	–2.7	–3.3%
Total expenses	**79.6**	**82.3**	–2.7	–3.3%
Economic result excluding Treasury function	**159.0**	**176.0**	–17.0	–9.7%
Treasury function	–14.3	–9.8	–4.5	–45.9%
Economic result	**144.6**	**166.2**	–21.6	–13.0%

Business development and profit performance in the Financing business division

In the first half of 2017, the Financing business division achieved an economic result of €32.8m (previous year: €–38.9m). The previous year's result was negatively affected by allocations to provisions for loan losses, particularly in relation to existing loans for ship financing (€–74.0m). The loan portfolio declined to €20.1bn (end of 2016: €21.7bn) due to repayments and the non-linear progress of new business.

Business development in the Financing business division

Of the loan portfolio, €13.0bn (end of 2016: €14.7bn) related to specialised financing (including savings banks financing). Infrastructure loans accounted for €1.8bn (end of 2016: €2.0bn), export loans €1.0bn (end of 2016: €0.8bn) and transport loans €3.8bn (end of 2016: €4.6bn). Transport loans included ship financing of €0.8bn and aircraft financing of €3.0bn. Gross loan volume for savings banks financing fell by €1.5bn to €5.9bn. The legacy portfolio, which consists of loans agreed before the credit risk strategy was changed in 2010, has declined since its inception to €0.5bn. At mid-year, the average rating for the loan portfolio as a whole stood at 5 on the DSGV master scale, unchanged compared with year-end 2016. This corresponds to a rating of BBB– on S&P's rating scale.

The property financing loan portfolio was unchanged, totalling €7.1bn at the reporting date (end of 2016: €7.0bn). Of this, €5.9bn was attributable to commercial property financing and €1.0bn to open-ended property fund financing. The average rating for the loan portfolio according to the DSGV master scale improved by one notch from 4 to 3. This corresponds to a rating of BBB on S&P's external rating scale. Including the portfolio secured by collateral, the rating according to the DSGV master scale improved by one notch to AAA, equivalent to a rating of AA+ on the S&P scale.

Of new business arranged totalling €2.0bn (previous year: €3.1bn), €1.2bn (previous year: €1.4bn) related to specialised financing and €0.8bn (previous year: €1.7bn) to property financing. The share of new business arranged for savings banks in the first half of the year was around 25% of the new business arranged in the specialised financing category. Syndication volume reached €0.8bn, with specialised and property financing accounting for approximately half each.

Profit performance in the Financing business division

The Financing business division ended the first half of 2017 with a positive result of €32.8m (previous year: €–38.9m). While the previous year's result was negatively affected by allocations to provisions for loan losses (€–74.0m), mainly for existing loans in the ship financing segment, some allocations in the first half of 2017 were offset by the release of provisions of a similar amount that were no longer needed. Net interest income and net commission income together almost matched the previous year's figure. At €27.2m, administrative expenses slightly exceeded the prior-year figure of €25.4m due to higher project expenses.

Profit performance Financing business division *(Fig. 11)*

€m	1st half 2017	1st half 2016	Change	
Net interest income	57.6	60.5	–2.9	–4.8%
Provisions for loan losses	0.7	–74.0	74.7	100.9%
Net commission income	15.4	14.3	1.1	7.7%
Net financial income	–5.9	–4.6	–1.3	–28.3%
Other operating income	0.2	0.3	–0.1	–33.3%
Total income	**68.0**	**–3.5**	71.5	(> 300%)
Administrative expenses (including depreciation)	27.2	25.4	1.8	7.1%
Total expenses	**27.2**	**25.4**	1.8	7.1%
Economic result excluding Treasury function	**40.8**	**–28.9**	69.7	241.2%
Treasury function	–8.0	–10.0	2.0	20.0%
Economic result	**32.8**	**–38.9**	71.7	184.3%

Business development and profit performance in non-core business

The portfolio assigned to non-core business essentially comprises legacy business with securitised and structured products. At 30 June 2017, gross loan volume stood at only €0.6bn, compared with €0.8bn at year-end 2016. The rating for the net loan volume improved from 3 to A on the DSGV master scale and A– on the S&P rating scale. The strategy of winding down the portfolio while safeguarding assets will be maintained for the remaining credit substitute business.

As expected, because of the reduction in volume, the economic result of €6.8m was lower than the comparative figure for 2016 (€9.9m).

Profit performance non-core business *(Fig. 12)*

€m	1st half 2017	1st half 2016	Change	
Net interest income	2.3	2.7	−0.4	−14.8%
Provisions for loan losses	0.0	0.0	0.0	n.a.
Net commission income	0.0	0.0	0.0	n.a.
Net financial income	4.8	7.7	−2.9	−37.7%
Other operating income	0.0	0.0	0.0	n.a.
Total income	**7.1**	**10.4**	−3.3	−31.7%
Administrative expenses (including depreciation)	0.3	0.5	−0.2	−40.0%
Total expenses	**0.3**	**0.5**	−0.2	−40.0%
Economic result excluding Treasury function	**6.8**	**9.9**	−3.1	−31.3%
Treasury function	0.0	0.0	0.0	n.a.
Economic result	**6.8**	**9.9**	−3.1	−31.3%

Financial position and assets and liabilities of the Deka Group

Financial position, capital structure, assets and liabilities

The Deka Group's balance sheet total increased in line with expectations compared with year-end 2016, rising by €10.2bn to €96.2bn as at 30 June 2017. This was essentially due to an increase in repo and issuance activities.

On the assets side, the total amount due from banks and customers rose by €4.2bn compared with year-end 2016 to €47.7bn, and thus accounted for around 50% of total assets. Financial assets recognised at fair value fell to €31.9bn (end of 2016: €34.9bn), whereas financial investments at €3.8bn exceeded the year-end figure by €0.9bn.

On the liabilities side, amounts due to banks and customers increased by €8.2bn in the first six months of 2017 to €49.0bn as at 30 June 2017, corresponding to around 51% of total liabilities. Securitised liabilities rose by €2.3bn in the first half of 2017 to €13.4bn. At €26.6bn, financial liabilities recognised at fair value were close to the figure recorded at year-end 2016.

Balance sheet changes Deka Group *(Fig. 13)*

€m	30 Jun 2017	31 Dec 2016	Change	
Balance sheet total	**96,184**	**85,955**	10,229	11.9%
Selected items on the assets side				
Due from banks and customers	47,729	43,495	4,234	9.7%
Financial assets at fair value	31,856	34,903	−3,047	−8.7%
Financial investments	3,849	2,969	880	29.6%
Selected items on the liabilities side				
Due to banks and customers	48,975	40,782	8,193	20.1%
Securitised liabilities	13,361	11,076	2,285	20.6%
Financial liabilities at fair value	26,611	26,519	92	0.3%

Changes in regulatory capital (own funds)

Capital adequacy is determined in accordance with the CRR/CRD IV. Alongside counterparty risk, market risk and operational risk, the credit valuation adjustment (CVA) risk is also taken into account. The own funds requirement under banking supervisory law was complied with at all times throughout the reporting period.

The change in the Common Equity Tier 1 capital ratio (fully loaded) has already been explained as part of the overall statement on the business trend and the Group's position. The corresponding total capital ratio amounted to 23.6% as at 30 June 2017 compared with €22.2% at year-end 2016.

The leverage ratio determined in accordance with the Delegated Regulation of 17 January 2015, i.e. the ratio of Common Equity Tier 1 capital to total assets, adjusted in line with regulatory requirements, stood at 4.7% as at 30 June 2017 (end of 2016: 5.1%) without applying the transitional provisions (fully loaded), and 4.7% (end of 2016: 5.2%) including the transitional provisions (phase in).

Regulatory capital Deka Group *(Fig. 14)*

€m	30 Jun 2017		31 Dec 2016	
	CRR/CRD IV (without transitional provisions)	CRR/CRD IV (with transitional provisions)	CRR/CRD IV (without transitional provisions)	CRR/CRD IV (with transitional provisions)
Common Equity Tier 1 capital	4,198	4,293	3,978	4,216
Additional Tier 1 capital	474	436	474	348
Tier 1 capital	**4,672**	**4,728**	**4,451**	**4,564**
Tier 2 capital	830	824	838	801
Own funds	**5,502**	**5,553**	**5,289**	**5,366**
Credit risk	14,553	14,553	15,038	15,038
CVA risk	1,314	1,314	1,411	1,411
Market risk	4,577	4,577	4,478	4,478
Operational risk	2,834	2,834	2,887	2,887
Risk-weighted assets (total risk exposure amount)	**23,278**	**23,278**	**23,813**	**23,813**
%				
Common Equity Tier 1 capital ratio	**18.0**	**18.4**	**16.7**	**17.7**
Tier 1 capital ratio	**20.1**	**20.3**	**18.7**	**19.2**
Total capital ratio	**23.6**	**23.9**	**22.2**	**22.5**

Liquidity and refinancing

The liquidity management requirements set out under the Minimum Requirements for Risk Management (*Mindestanforderungen an das Risikomanagement* – MaRisk) were clearly fulfilled during the first half of 2017. The regulatory requirements of the German Liquidity Regulation (*Liquiditätsverordnung*) were likewise complied with at all times during the reporting period. The liquidity coverage ratio (LCR) increased for the Deka Group to 159.0% as at 30 June 2017 (end of 2016: 124.4%).

Details about the Deka Group's liquidity position, including the liquidity coverage ratio, can be found in the risk report.

Refinancing is carried out in a diversified manner using conventional domestic and international money market and capital market instruments. This includes the issuance of public sector and mortgage *Pfandbriefe*, short-term bearer bonds based on the Commercial Paper (CP) Programme, and medium to long-term bearer bonds based on the Debt Issuance Programme, as well as the two issuance programmes for structured issues and certificates (EPIHS I and EPIHS II). DekaBank also uses the repo and lending markets, call money and time deposits to raise and invest liquidity. Refinancing activities are supplemented by active market-making for own issues.

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.

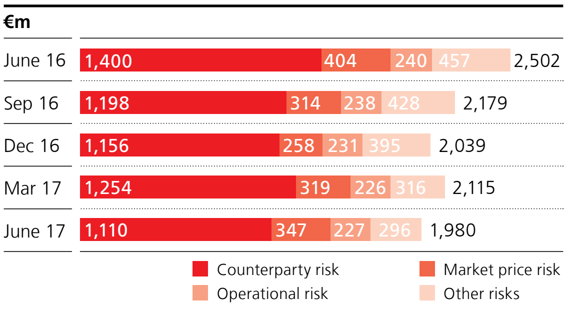
For stress scenarios, at the reporting date of 31 March 2017, the proxy model for market price risk calculation was replaced by integration of the productive model. As expected, this led to slight relief in all scenarios.

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).