Economic report

Economic environment

Compared with 2017, the economic environment for asset management deteriorated somewhat over the reporting period. Investors were increasingly cautious in the face of the ongoing tightening of monetary policy, rising uncertainty concerning global growth prospects (which stemmed in part from trade disputes and geopolitical tensions), sluggish growth in corporate profits, and subdued earnings expectations. This was reflected in falling share prices as well as a significant decline in net inflows affecting mutual securities funds across the industry. Concerns about the long-term stability of the EU and the euro also multiplied. This was partly linked to the difficult Brexit negotiations and an expansionary fiscal policy stance in Italy. The Deka Group's total customer assets at the reporting date declined slightly year-on-year despite positive sales performance. This was caused in particular by negative investment performance as a result of market developments. Averaged over the year, however, total customer assets moderately exceeded the prior-year figure. Extremely low interest rates on deposits continued to provide a tailwind; securities will remain indispensable for a long time to come if investors are to avoid losses in the real value of their investments.

As in previous years, the expansionary central bank policy in the eurozone was detrimental to the banking business. Though the European Central Bank has phased out its securities purchases, this has not yet resulted in any lasting upward trend in bond yields. Yields on medium- and long-term Bunds and Bobls (German government bonds) fell significantly again over the year, while the deposit rate and three-month EURIBOR remained stuck in negative territory. Low market interest rates, low bond yields and a high liquidity supply again put pressure on short-term capital markets business and on lending. There were also high economic risks, for example from the impending Brexit, the trade dispute between the US and China and the political developments in Italy.

The UK plans to leave the European Union (EU), and thus the world's largest single market, on 29 March 2019. Agreements or organisational measures and intensive, long-running preparations are needed to establish the future economic relationship. The British government and EU therefore agreed initially on rules for the period immediately after the UK's exit until such a trade agreement has been signed. These transition rules (the "deal") provide for the UK to retain the European Union's trade legislation and external tariffs during this transition period. Though the protracted negotiations between the UK and EU throughout 2018 showed how difficult Brexit is to achieve, there has not yet been any significant impact on business in the Deka Group. The uncertainty surrounding Brexit is considerable, leading banks and businesses to also prepare for the possibility of a "hard", disorderly Brexit. This is a response to the political disagreement in the British parliament, which was exemplified by a vote on 15 January 2019, in which the "deal" was defeated by a large majority.

Macroeconomic conditions

Global growth weakened somewhat in the course of 2018 with increasing regional disparities. The strong upturn in the US was contrasted by a moderate slowdown in growth rates in the eurozone and China. Among the eurozone countries, Germany and Italy fell especially short of expectations. In Germany's case, this was partly due to a backlog in vehicle approvals in the automotive industry. The trade dispute between the US and China, which began with the imposition of a punitive 10% tariff on 200 billion US dollars' worth of Chinese goods, did not yet have a significant impact in the reporting year. However, the escalation threatened for the first half of 2019, involving 25% tariffs, was already weighing on sentiment in manufacturing among other industries.

Despite eurozone unemployment reaching below-average levels, core inflation remained low. The substantial oil price correction at the end of the year also acted as a brake on inflation. There was thus still no cause for the European Central Bank (ECB) to raise base rates. The ECB's monetary policy remained expansionary, notwithstanding the phasing-out of net securities purchases. This put pressure on the euro, which lost ground against the US dollar.

Economic environment for asset management

Private household wealth in Germany rose noticeably in response to the stable economic climate. At the end of the third quarter of 2018, German households held financial assets of €6,053bn, up €172bn on year-end 2017. They continued to favour cash and demand deposits, however, while investments in shares increased only marginally. Investments in fund units rose by approximately €20bn in the period to the end of September 2018. Given the greater economic and political risks posing a growing challenge to the corporate sector, private investors reduced their risk appetite.

This was accompanied by falls in share prices, especially in the second half of the year. The DAX German equity index lost 18.3% over the year. Elsewhere in Europe and in Asia, there were also substantial corrections in the second half of the year, accompanied by rising volatility. In the US, meanwhile, the Dow Jones abruptly ended its soaring performance in the fourth quarter despite continuing strong economic growth.

The cautious attitude of investors was also reflected in the investment statistics of the German Investment Funds Association BVI. Net assets in open-ended mutual funds amounted to €973.6bn at the end of 2018 (previous year: €1,022.3bn), thus falling well short of the prior-year figure, as did net inflows at €21.8bn (previous year: €72.5bn). Relatively low-risk mixed funds were in demand but did not repeat the inflows seen in the previous year. Equity funds posted a positive result with net inflows of €0.7bn. However, this did not come close to the previous year's €18.0bn. Bond funds saw significant net outflows. In contrast to retail funds, open-ended special funds for institutional investors achieved moderate growth in net assets.

Demand for mutual real estate funds rose slightly with net sales of €6.4bn, while special real estate funds lost noticeable ground. Real estate funds still offer an attractive risk/reward ratio in the current interest rate environment. Given high real estate prices and limited availability of suitable properties, however, the investment opportunities open to real estate funds remain limited. This is restricting their ability to attract new investor funds, particularly given that it is not possible to generate positive margins from liquidity investments. The stable economic environment once again led to considerable rental growth in the markets for office space in 2018. Yields declined further, especially in European markets. Overall, the global transaction volume was up on the already high prior-year figure. The North America region recorded the highest increase in investment turnover, followed by Asia/Pacific.

Economic environment for the banking business

The monetary policy framework set by the central banks continued to make itself felt in the market environment for the banking business in 2018. With core inflation remaining moderate, the ECB held fast to its historically low base rates. Deka economists do not expect the ECB to raise its deposit facility rate until spring 2020. As the flattening of money market curves at the longer-maturity end shows, market participants corrected their expectations of future base rate hikes downwards again towards the end of the year.

The ECB's securities purchases were already cut back to a monthly volume of €30bn at the start of 2018 before being terminated completely at the end of the year. However, the impact on bond yields was limited. The upward trend in yields on long-dated German government bonds was masked by the change in risk perception informed by the global trade disputes and, increasingly, the debt situation in Italy. In the final weeks of 2018, the concern about a reignition of the euro crisis and the escalating trade dispute between the US and China caused investors to move funds from high-risk investments to safer German Bunds and US Treasuries. Lowered expectations regarding future base rate rises also prevented a lasting increase in yields on the sought-after safe-haven investments.

Meanwhile, in response to the growing uncertainty, there was a noticeable widening of spreads on corporate bonds as well as sovereign and bank bonds from Italy and other eurozone countries regarded as less stable. Yields on German *Pfandbriefe* also exceeded the previous year's level.

The very high availability of liquidity continued to greatly limit short-term capital markets business. Moreover, the margins achievable on the market in the Commission Business unit were put under pressure by the increase in execution venues (such as the Organised Trading Facility (OTF)), which led to a reallocation of trading volumes. The environment for structured issues was affected by a general stagnation in certificates markets. In the OTC derivatives market, the temporary uncertainty about the recognition of LCH as the central clearer was resolved at the end of the year, meaning a stable market infrastructure for derivatives trading and the related infrastructure services of the savings banks is not in doubt.

There were no significant year-on-year changes in the market environment for the financing business. While the shipping markets continued to see structural overcapacity, the environment for aircraft and infrastructure financing was stable on the whole. Potential in terms of margins remained limited, however, as strong competition from banks and institutional investors for attractive credit assets meant that borrowers could continue to negotiate favourable terms.

Regulatory environment

Changes to regulations, both those already initiated and those in the pipeline, once again influenced the business model and profitability of the Deka Group during the 2018 financial year. Regulatory projects especially make considerable demands on costs and resources.

Regulatory topics

In the EU, reform of Capital Requirements Regulation II (CRR II) and Capital Requirements Directive V (CRD V) made progress in the reporting year. The revision of the CRR is intended primarily to implement the proposals of the Basel Committee on Banking Supervision (BCBS) regarding the leverage ratio (LR), net stable funding ratio (NSFR) and standardised approach to counterparty credit risk (SA-CCR), as well as the revised rules on large exposures and the trading book. The trilogue negotiations between the European Council, European Parliament and European Commission on the adoption of CRR II were largely completed by the end of 2018, meaning that formal adoption of the final legal texts can be expected in the first half of 2019.

The Fundamental Review of the Trading Book (FRTB) planned to accompany the implementation of CRR II contains amended rules on market risk, which are likely to lead to an increase in risk-weighted assets (RWAs) when using the standardised approach in future. On 14 January 2019, the Basel Committee published the final standard with slightly reduced risk weightings in the standardised approach compared with under the 2016 Basel standard. This will reduce the increase in risk-weighted assets overall.

As part of the revision of European capital and liquidity requirements, it is also planned to tighten up the rules on large exposures, forcing more restrictive handling of large exposure risks. The large exposure limit will no longer be set according to the level of total own funds but instead according to the level of Core Equity Tier 1 capital. In addition, when collateral is accepted, the collateral provider or issuer of the financial collateral shall be required to take the loan into account in their large exposure limit. Repo and stock lending transactions may become less attractive as a result. First-time application remains scheduled for 2021.

The provisions of the Basel III regulations finalised in December 2017 (also known as "Basel IV"), which contain, among other things, rules on the output floor and Credit Risk Standardised Approach (CRSA), are not included in CRR II. The Basel Committee intends these rules to be introduced as from 1 January 2022. A timetable for implementation at EU level is not yet known. More specifically, the gradual introduction of an output floor is planned. This will stand at 50% upon introduction at the beginning of 2022 and increase to its final level of 72.5% in 2027. The output floor will limit the benefit of internal models as compared to the standardised approach. DekaBank currently uses the IRB approach for the majority of its lending. For the general components of interest rate and share price risk, it uses an up-to-date internal model for market price risk. It will therefore be particularly affected by the new output floor rules, which may lead to a significant rise in RWAs going forward. In addition, new rules have been agreed on calculating RWAs for CVA (credit valuation adjustment) risk and operational risk, which are also to be applied starting in 2022. These may also increase RWAs.

Alongside CRR II, the European Council reached an agreement on changes to the EU's Bank Recovery and Resolution Directive (BRRD II) and Single Resolution Mechanism Regulation (SRMR II). These primarily concern the translation of international standards on loss-absorbing capacity into European law (TLAC) and their harmonisation with the minimum requirements for own funds and eligible liabilities for loss absorption and recapitalisation in the event of resolution (MREL). In October, the trilogue negotiation partners reached an agreement on the treatment of existing, currently MREL-eligible liabilities until maturity. As the Single Supervisory Mechanism (SSM) applies to the Deka Group, DekaBank again supported the work on a resolution plan for the Deka Group during 2018, which will ultimately be the basis for determining MREL.

In October 2017, the European Banking Authority (EBA) presented a regulatory interpretation regarding the own funds requirements for guarantees on investments in investment funds. Application of these requirements would have severe effects on prudential capital ratios. An industry-devised alternative solution for handling the credit risks presented by guarantee funds and *Riester* pension products was introduced into the legislative process for CRR II in the course of the ECON committee meeting in mid-June 2018, with the committee voting in favour. The proposal is currently under discussion as part of the trilogue negotiations on CRR II. First-time application of the new rules is expected to coincide with the entry into force of CRR II.

The ECB examined 37 eurozone banks in the reporting year in connection with the 2018 stress tests conducted with the European Banking Authority (EBA). At the same time, the ECB carried out its own stress test, consistent with the EBA methodology, for significant institutions that are subject to direct ECB supervision, but, like DekaBank, are not among the institutions participating in the EBA's EU-wide stress tests. The stress test results for all significant institutions were used in the second half of 2018 to determine the Pillar II capital requirements for individual banks in connection with the Supervisory Review and Evaluation Process (SREP). DekaBank concluded the stress test with a result that considerably exceeded the SREP requirements.

In March 2018, the ECB also published its expectations concerning the level of risk provisioning for non-performing loans (NPL). The document is not binding on banks, but serves as a basis for the annual dialogue at banking supervisory level. Specifically, the guidelines call for full risk coverage of uncollateralised (collateralised) NPLs after two (seven) years following classification as NPL (this does not, however, give rise to any mandatory capital requirement). A draft amendment to the CRR put forward by the European Commission, by contrast, proposes a mandatory deduction from Common Equity Tier 1 capital if a bank's actual provisioning falls short of the minimum supervisory requirement.

Product- and service-related regulatory proposals

Since 3 January 2018, requirements of the EU Markets in Financial Instruments Directive II (MiFID II), EU Markets in Financial Instruments Regulation (MiFIR) and MiFID II Implementing Regulation have been partly applicable through the Securities Trading Act (*Wertpapierhandelsgesetz* – WpHG) or directly applicable as national law. 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. The directives include supplementary and new regulations in relation to inducements, product and marketing approval requirements and related monitoring (product governance), new record-keeping requirements (voice recording), extended obligations for institutions with proprietary trading ("systematic internalisers"), new provisions for automated trading and derivatives trading, and new reporting obligations for securities trading. DekaBank implemented the requirements of MiFID II and MiFIR on time and in close cooperation with the *Sparkassen-Finanzgruppe* and especially the DSGV. Implementing the regulatory requirements has given rise in particular to higher costs for securities and derivatives trading as well as to liability risks. Various clarifying guidelines on MiFID II were issued at national and EU level over the further course of the year. Among other things, guidelines on suitability assessment have been issued by the ESMA (European Securities and Markets Authority) and Minimum Requirements for the Compliance Function (MaComp) revised by the Federal Financial Supervisory Authority (BaFin) have been published. Both of these have been implemented accordingly in the Deka Group in consultation with the DSGV.

The EU Directive on deposit guarantee schemes (Deposit Guarantee Scheme Directive) was adopted at the end of 2018 as a component of the European Banking Union. It is planned to establish a common European Deposit Insurance Scheme (EDIS), harmonising the requirements concerning national deposit guarantee schemes at European level. Gradual implementation is planned to run until 2024. In the first stage of the process, liquidity assistance will be made available in the event that a national guarantee scheme runs out of money. In stage two, however, all savers will be compensated from a single guarantee pot. There are inherent risks in an EU-wide pooling of liability.

Tax policy developments

The German Investment Tax Reform Act (*Investmentsteuerreformgesetz*) came into force at the beginning of the reporting year. The new Act fundamentally changes the taxation of investment funds in Germany. Since then, both mutual funds and special funds have been liable to corporation tax on income from domestic equities, rental income and gains on property disposals. To compensate for taxation of the fund, private investors in particular receive suitable partial exemptions. The exemptions are applied when calculating withholding tax and thus offset the performance-dampening effects. Subject to certain conditions, the regulations for special funds will remain unchanged.

Another tax change related to the grandfathering of old investment fund units for private investors. Gains realised since 1 January 2018 have been subject to the new tax regime to the extent they exceed a tax-exempt amount of €100,000. This rule change did not significantly impact upon customers' investment behaviour. However, implementation expenses were incurred in connection with it.

The Act for the Prevention of VAT Revenue Losses from Trading with Goods over the Internet and Amendment of Further Tax Provisions (*Gesetz zur Vermeidung von Umsatzsteuerausfällen beim Handel mit Waren im Internet und zur Änderung weiterer steuerlicher Vorschriften*) – or "Annual Tax Act 2018" – included consequential amendments to the Investment Tax Reform Act 2018. Among other things, there were changes to the equity participation ratios for individual fund types, creating greater freedom for fund managers.

Business development and profit performance in the Deka Group

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

Despite a challenging market environment in 2018, the Deka Group achieved a satisfactory economic result of €451.8m (previous year: €448.9m). Income increased slightly to a total of €1,509.0m (previous year: €1,494.1m). Higher net interest income, a positive loan loss provisioning balance and slightly increased net commission income were accompanied by a decline in net financial income and other operating profit. Expenses moderately increased to a total of €1,057.2m (previous year: €1,045.2m).

The Deka Group was unable to fully escape the increasingly uncertain stock market environment in the second half of 2018. At €11.3bn, net sales in the retail business remained well within positive territory but did not quite match the previous year's figure of €12.3bn. Equity funds, mixed funds, real estate funds and certificates made up a particularly significant proportion of sales. Including sales to institutional customers, net sales totalled €11.8bn, falling short of the high prior-year figure of €25.7bn. At €0.5bn, institutional business was substantially down on the previous year (€13.4bn), partly as a result of the termination of an individual mandate (as planned) as part of the integration of Deka Vermögensmanagement GmbH (formerly LBB-INVEST GmbH) in 2018.

Deka Group net sales *in €m (Fig. 1)*

	2018	2017
Net sales	**11,773**	**25,671**
by customer segment		
Retail customers	11,296	12,309
Institutional customers	477	13,362
by product category		
Mutual funds and fund-based asset management	4,547	8,492
Special funds and mandates	–1,418	9,724
Certificates	8,043	7,597
ETFs	601	–141

At €275.9bn, the Deka Group's total customer assets were slightly down on the figure for year-end 2017 (€282.9bn). The positive sales performance was accompanied by a market-induced negative investment performance at the reporting date, distributions (from which customers benefited) and certificate redemptions.

Deka Group total customer assets *in €m (Fig. 2)*

	31 Dec 2018	31 Dec 2017	Change	
Total customer assets	**275,878**	**282,888**	−7,010	−2.5%
by customer segment				
Retail customers	137,169	138,951	−1,782	−1.3%
Institutional customers	138,709	143,937	−5,228	−3.6%
by product category				
Mutual funds and fund-based asset management	137,249	141,166	−3,917	−2.8%
Special funds and mandates	109,585	115,057	−5,472	−4.8%
Certificates	20,443	17,552	2,891	16.5%
ETFs	8,602	9,113	−511	−5.6%

Utilisation of risk capacity (42.1%) and risk appetite (67.4%) showed an increase compared to the previous year's figures (34.4% and 55.0%). This was predominantly attributable to the development of counterparty risk and market price risk. The principal reasons for this were position expansion in the Capital Markets division and a volume increase for guarantee products in conjunction with higher spread and equity volatilities. Economic risk-bearing capacity was at a non-critical level overall as at the 2018 balance sheet date.

The Deka Group's financial position remains sound. The Common Equity Tier 1 capital ratio is calculated by reference to the CRR/CRD IV requirements, without the transitional provisions (fully loaded). At the end of 2018, it stood at 15.4%. As expected, this was slightly lower than the previous year's figure (16.7%). While Common Equity Tier 1 capital increased to €4,460m due to retention of part of the annual profit from 2017 and other effects from the 2017 annual financial statements, risk weighted assets (RWAs) increased by 16.6% to €29,021m. The increase in credit risk resulted primarily from an expansion of business in the Financing business division, higher volumes in the Capital Markets business division and higher RWAs from guarantee products in the Asset Management Securities business division. The increased market risk was also attributable to the expansion of business in the reporting year.

At 4.6%, the leverage ratio (fully loaded) at the end of 2018 was considerably higher than the minimum 3.0% expected to apply from 2019. The liquidity and funding position remained comfortable, as expressed in a liquidity coverage ratio (LCR) of 149.8% as at 31 December 2018, and changed only insignificantly compared with year-end 2017 (152.5%).

Taking account of the requirements of the SREP (Supervisory Review and Evaluation Process), DekaBank had to comply at Group level with a phase-in Common Equity Tier 1 capital ratio of at least 8.18% as at 31 December 2018. This capital requirement is made up of the Pillar 1 minimum requirement (4.5%) plus the Pillar 2 requirement (1.25%), the capital conservation buffer (1.875%), the countercyclical capital buffer (approximately 0.238% at year-end 2018) and the capital buffer for other systemically important banks (0.32%). The capital requirement for the total capital ratio with transitional provisions (phase-in) was 11.68%. Both requirements were clearly exceeded at all times.

In summary, the Deka Group is well-prepared for the future in both asset management and banking business.

Comparison of forecast and actual growth

Expectations regarding the Deka Group's results in 2018, as set out in the forecast report of the 2017 Group management report and updated in the 2018 interim financial report, were largely met.

Net sales were an exception: the increasingly uncertain stock market environment in the second half of 2018 and a one-off effect in institutional business resulted in a more substantial decline than expected. Nevertheless, clearly positive net sales performance was achieved in the retail business. Total customer assets were slightly down on the prior-year figure despite the net sales. A slight increase compared with year-end 2017 had been expected. The decline was attributable to market-induced negative investment performance at the reporting date, distributions (from which customers benefited) and certificate redemptions.

Development of performance indicators in the Deka Group *(Fig. 3)*

		31 Dec 2017	Forecast report 2017	Interim report 2018	31 Dec 2018	Change	
Economic result	€m	448.9	Slight increase	Slight increase	451.8	2.9	0.6%
Total customer assets	€bn	282.9	Slight increase	Slight increase	275.9	−7.0	−2.5%
Net sales	€bn	25.7	Slight decrease	Slight decrease	11.8	−13.9	−54.1%
Common Equity Tier 1 capital ratio	%	16.7	Over 13%	Over 13%	15.4	−1.3%-points	
Utilisation of risk capacity	%	34.4	Moderate increase	Moderate increase	42.1	7.7%-points	

Ratings

At year-end 2018, DekaBank's ratings remained among the best in its peer group of German commercial banks. Since October 2017, our issuer rating from Standard & Poor's (S&P) has stood at A+ with a stable outlook, with a short-term rating of A-1. S&P gives us ratings of A+ for preferred senior unsecured debt ("Senior Unsecured Debt") and A for non-preferred senior unsecured debt ("Senior Subordinated Debt").

Moody's adjusted the ratings for DekaBank debt securities at the start of August 2018, as part of an industry-wide ratings reassessment. This was due to the transposition of Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017 amending Directive 2014/59/EU as regards the ranking of unsecured debt instruments in insolvency hierarchy ("BRRD Amendment Directive") into German law on 21 July 2018.

Moody's gave DekaBank's preferred senior unsecured debt ("Senior Unsecured Debt") a rating of Aa2 with a stable outlook. Non-preferred senior unsecured debt ("Junior Senior Unsecured Debt") is rated A1. Moody's gave DekaBank an issuer rating of Aa2 with a stable outlook. The short-term rating is unchanged at P-1. Moody's awarded an Aaa rating to DekaBank's *Pfandbrief* bonds.

The ratings awarded by both agencies reflect the high strategic importance of the Deka Group to the savings bank sector as well as the adequate capital and liquidity base for its business model.

Profit performance of the Deka Group

The economic result stood at €451.8m, thereby remaining stable at the previous year's level (€448.9m). Total income rose slightly to €1,509.0m (previous year: €1,494.1m). Meanwhile, there was a moderate year-on-year increase in expenses to €1,057.2m (previous year: €1,045.2m).

At €181.5m, net interest income was up €39.0m on the previous year's figure (€142.5m). Key components of net interest income were the earnings contribution from specialised and real estate financing in the Financing business division, as well as the earnings contribution from the strategic investments unit in the Capital Markets business division, which were higher than the previous year's level overall.

Risk provisions in the lending and securities business stood at €22.4m (previous year: €–17.8m), chiefly due to the reversal of loss allowances that were no longer required. Lending business accounted for €14.5m (previous year: €–28.5m) and securities for €7.9m (previous year: €10.7m). Net financial income from banking book portfolios includes negative earnings contributions of approximately €–17m from loan portfolios measured at full fair value; this figure should be viewed in combination with risk provisions for loan losses.

Net commission income amounted to €1,218.0m (previous year: €1,202.7m) and made up around 80% of total income. Commission from the investment fund business rose primarily due to higher variable management fees and acquisition and construction fees in the Real Estate business division. A further positive impact came from the increase in total customer assets (averaged over the year) in the Securities division. Growth in custodial fees led to a rise in commission from custody account business. Commission income from banking reduced. This fall was partly attributable to the Commission Business unit.

Net financial income came to €130.8m, falling short of the previous year's figure (€158.8m). This figure includes all income and expense items from the trading book as well as the valuation and sale results from the banking book portfolios.

At €271.5m, net financial income from trading book portfolios was slightly higher than the prior-year figure (€252.4m). A key component was income from the Trading & Structuring unit, which noticeably outperformed the comparative figure for 2017. In structuring, demand was strong in the third-party issues and certificates business. Collateral Trading & Currency achieved a result close to that seen in the previous year.

Net financial income from the banking book was €–140.7m (previous year: €–93.6m). This was essentially due to adverse valuation effects on securities in the wake of spread movements during 2018. An amount of €35m was released from the general provision for potential risks. The previous year's figure (€–93.6m) included an increase in the general provision of €95m. Additions to or releases from the general provision are reflected in the economic result, but do not form part of the IFRS profit or loss and are not allocated to specific business divisions.

The other operating profit in the amount of €–43.7m was below the previous year's figure (€8.0m). Actuarial losses of €–30.7m were recorded on pension provisions, owing to a market-induced fall in the value of plan assets. The actuarial interest rate remained unchanged year-on-year at 1.90%. Actuarial gains of €15.4m were recorded in the previous year. Actuarial effects are not included in the IFRS profit or loss as they are posted directly to equity (revaluation reserve). However, they are reported in the economic result as part of the profit or loss for the period.

There was only a minor increase in personnel expenses, from €524.3m in the previous year to €531.0m. Wage and salary increases under collective agreements and moderately higher staffing levels due to regulatory requirements and growth in business volume caused the upward trend.

At €459.9m, operating expenses (excluding bank levy and depreciation) remained almost unchanged on the previous year (€460.9m). Operating expenses also reflect the expenses incurred in relation to the implementation of regulatory requirements. The annual contribution (€10.8m) to the deposit protection reserve of the *Landesbanken* and *Girozentralen* is also recognised here (previous year: €8.2m).

At €29.6m, the bank levy was €5.7m lower than in the previous year (€35.3m).

Depreciation charges of €18.0m (previous year: €19.3m) mainly related to intangible assets.

Restructuring expenses of €18.7m were incurred in 2018. These resulted primarily from the strategic reorganisation of DekaBank Deutsche Girozentrale Luxembourg S.A. The prior-year figure included, in particular, restructuring provisions from the strategic reorganisation of Deka Vermögensmanagement GmbH (formerly LBB-INVEST GmbH) in the amount of €5.4m.

The cost/income ratio, i.e. the ratio of total expenses (excluding restructuring expenses) to total income (before risk provisions in the lending and securities business), was 69.9% (previous year: 68.8%). Return on equity (before tax) was 9.7% (previous year: 9.9%).

Deka Group performance *in €m (Fig. 4)*

	2018	2017	Change	
Net interest income[1]	181.5	142.5	39.0	27.4%
Risk provisions in the lending and securities business	22.4	–17.8	40.2	225.8%
Net commission income	1,218.0	1,202.7	15.3	1.3%
Net financial income[1]	130.8	158.8	–28.0	–17.6%
Other operating profit	–43.7	8.0	–51.7	(< –300%)
Total income	**1,509.0**	**1,494.1**	14.9	1.0%
Administrative expenses (including depreciation)	1,038.5	1,039.8	–1.3	–0.1%
Restructuring expenses	18.7	5.4	13.3	246.3%
Total expenses	**1,057.2**	**1,045.2**	12.0	1.1%
Economic result	**451.8**	**448.9**	2.9	0.6%

[1] Net income of €4.8m from the disposal of assets recognised at amortised cost (previous year: €13.1m) was recognised in net financial income for the first time in 2018. This was disclosed under net interest income in the previous year. The prior-year figures have been adjusted to aid comparison.

Business development and profit performance by business division

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

In light of market developments, the division's economic result fell short of the previous year's figure. Net sales to retail customers performed as expected, while a one-off effect led to a significant decline in net sales to institutional customers. Given the unfavourable development of the market in the second half of the year, the division saw a moderate fall in total customer assets.

Net sales and total customer assets

Net sales fell substantially compared to the exceptional figure of €15.9bn recorded in 2017. At €1.1bn, they also failed to meet expectations. This was due to redemptions and maturities of €–2.1bn for special funds and mandates including master funds, compared to net sales of €9.6bn in the previous year. The change reflected the one-off effect constituted by the departure of a major master funds customer.

By comparison, net sales of mutual securities funds, including fund-based asset management, were considerably more stable at €2.6bn. As expected and given the difficult market environment, however, they also failed to match the €6.4bn achieved in 2017. Equity funds and mixed funds outperformed the prior-year figures, while bond funds fell short. *Deka-DividendenStrategie* was particularly popular with investors in terms of sales. Total direct sales of mutual funds declined to €2.0bn (previous year: €5.6bn). In fund-based asset management, net sales of €0.6bn (previous year: €0.8bn) were achieved thanks to the continued success of *Deka-BasisAnlage* (Deka Basic Investment). Net ETF sales increased to €0.6bn (previous year: €–0.1bn) due to a strong rise in net sales of equity-based ETFs.

Net sales in the Asset Management Securities business division *in €m (Fig. 5)*

	2018	2017
Net sales	**1,107**	**15,870**
by customer segment		
Retail customers	3,912	5,563
Institutional customers	–2,806	10,307
by product category		
Mutual funds and fund-based asset management	2,555	6,426
ETFs	601	–141
Special funds and mandates	–2,050	9,585

The division's total customer assets amounted to €217.3bn at the end of 2018 (previous year: €231.0bn). The positive sales performance was more than offset by the market-induced negative investment performance and by distributions (from which customers benefited).

Total customer assets in the Asset Management Securities business division *in €m (Fig. 6)*

	31 Dec 2018	31 Dec 2017	Change	
Total customer assets	**217,337**	**230,991**	–13,654	–5.9%
by customer segment				
Retail customers	97,384	103,104	–5,720	–5.5%
Institutional customers	119,952	127,887	–7,935	–6.2%
by product category				
Mutual funds and fund-based asset management	106,315	112,883	–6,568	–5.8%
thereof: equity funds	28,443	29,656	–1,213	–4.1%
thereof: bond funds	31,426	36,473	–5,047	–13.8%
thereof: mixed funds	15,467	16,377	–910	–5.6%
ETFs	8,602	9,113	–511	–5.6%
Special funds and mandates	102,420	108,995	–6,575	–6.0%

Profit performance in the Asset Management Securities business division

At €230.5m, the division's economic result was lower than in the previous year (€345.4m). Income was affected by the decline in net commission income, due among other things to lower performance fees and negative effects from provisions for guarantee products. Net interest income and net financial income also fell short of the comparative figures for 2017. Expenses were almost unchanged at €393.8m.

Profit performance in the Asset Management Securities business division *in €m (Fig. 7)*

	2018	2017	Change	
Net commission income	649.4	716.1	–66.7	–9.3%
Other income	–8.1	34.1	–42.2	–123.8%
Total income	**641.3**	**750.2**	–108.9	–14.5%
Administrative expenses (including depreciation)	389.9	389.7	0.2	0.1%
Restructuring expenses	3.9	3.8	0.1	2.6%
Total expenses	**393.8**	**393.5**	0.3	0.1%
Economic result without Treasury function	**247.5**	**356.7**	–109.2	–30.6%
Treasury function	–17.1	–11.3	–5.8	–51.3%
Economic result	**230.5**	**345.4**	–114.9	–33.3%

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

The division's economic result outstripped the previous year's figure again, thanks to high variable fund management fees. This reflected solid investment performance by the funds, which was based on a further improvement in rental performance and a high transaction volume. Total customer assets increased by almost €3.8bn to €38.1bn due to improved net sales.

Net sales and total customer assets

The division's net sales increased to €2.6bn (previous year: €2.2bn). In the case of open-ended mutual real estate funds for retail customers, the sales quotas set on the basis of a conservative yield and liquidity management had largely been met by the end of the year. Net sales totalled €1.7bn. The previous year's figure (€1.9bn) includes reinvestments from an interim distribution from the funds prompted by changes in the German Investment Tax Reform Act (*Investmentsteuerreformgesetz*). The majority of net sales related to *Deka-ImmobilienEuropa* and *WestInvest InterSelect*.

Net sales in open-ended mutual real estate funds for institutional customers, special funds, individual real estate funds, credit funds and mandates increased significantly to €0.9bn (previous year: €0.3bn). Special funds were the main driver.

Net sales in the Asset Management Real Estate business division *in €m (Fig. 8)*

	2018	2017
Net sales	**2,624**	**2,204**
by customer segment		
Retail customers	1,717	1,924
Institutional customers	907	280
by product category		
Mutual property funds	1,992	2,065
Special funds and individual property funds and mandates	632	139

The Asset Management Real Estate business division's total customer assets increased by 10.9% in the reporting year to €38.1bn (year-end 2017: €34.3bn), of which €30.9bn related to mutual real estate funds. A yield-focused cash management policy again contributed to the rise in total customer assets. Euro-denominated mutual real estate funds achieved an average volume-weighted return of 3.4% (previous year: 2.7%).

Total customer assets in the Asset Management Real Estate business division *in €m (Fig. 9)*

	31 Dec 2018	31 Dec 2017	Change	
Total customer assets	**38,099**	**34,345**	3,754	10.9%
by customer segment				
Retail customers	28,477	26,232	2,245	8.6%
Institutional customers	9,622	8,113	1,509	18.6%
by product category				
Mutual property funds	30,934	28,283	2,651	9.4%
Special funds and individual property funds and mandates	7,166	6,062	1,104	18.2%

Transaction volume, i.e. purchases and sales of property, declined to €4.5bn (previous year: €5.9bn). Around 87% of the overall transaction volume concerned a total of 59 contractually secured property purchases. There were 21 disposals. Business activities continue to centre on properties in the office, retail, hotel and logistics asset classes. With this transaction volume, the Deka Group remains one of the world's biggest property investors.

Profit performance in the Asset Management Real Estate business division
At €162.7m, the Asset Management Real Estate business division's economic result was substantially up on the previous year's figure (€111.0m). With the positive business performance, higher variable management fees and acquisition and construction fees made a considerable contribution to the increase in net commission income. In contrast, expenses rose only moderately to €137.3m.

Profit performance in the Asset Management Real Estate business division *in €m (Fig. 10)*

	2018	2017	Change	
Net interest income	3.7	4.8	−1.1	−22.9%
Net commission income	303.1	240.4	62.7	26.1%
Net financial income	−4.5	−0.2	−4.3	(< −300%)
Other operating profit	1.6	1.9	−0.3	−15.8%
Total income	**303.8**	**246.9**	56.9	23.0%
Administrative expenses (including depreciation)	137.3	133.0	4.3	3.2%
Total expenses	**137.3**	**133.0**	4.3	3.2%
Economic result without Treasury function	**166.5**	**113.9**	52.6	46.2%
Treasury function	−3.8	−2.9	−0.9	−31.0%
Economic result	**162.7**	**111.0**	51.7	46.6%

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

The economic result in the Asset Management Services business division slightly exceeded the previous year's figure. There was an increase in the number of securities accounts in the Digital Multichannel Management subdivision. Market conditions led to a slight reduction in assets under custody (assets held by the Deka Group in its capacity as custodian bank).

Business development in the Asset Management Services business division
In Digital Multichannel Management, the division maintained almost unchanged assets under custody (€118.6bn) despite the negative market environment (year-end 2017: €119.3bn). At 76.8m, the number of securities transactions significantly outperformed the prior-year figure (62.3m), partly due to the effects of the Investment Tax Reform Act (*Investmentsteuerreformgesetz*) introduced in 2018. By the end of 2018, more than 140 savings banks had used the broker model to integrate the digital investment solutions developed by bevestor into the product offering of their "internet branches".

Negative investment performance along with redemptions and maturities led to a slight year-on-year reduction in assets under custody to €194.6bn. The number of custody accounts for which the division is the legal provider rose by 3.6% or 162 thousand to some 4.7 million. Regular savings products were a key driver of the increase once again in 2018.

Profit performance in the Asset Management Services business division
The economic result for the Asset Management Services business division in the reporting year was €4.1m. This outstripped the previous year's figure of €–4.8m. The increase resulted primarily from improved net commission income in the banking and custody account business. This earnings growth was partially offset by higher project expenses, including in connection with the expansion of Digital Multichannel Management, and a restructuring provision related to the strategic reorganisation of DekaBank Deutsche Girozentrale Luxembourg S.A.

Profit performance in the Asset Management Services business division *in €m (Fig. 11)*

	2018	2017	Change	
Net interest income	5.3	4.2	1.1	26.2%
Risk provisions in the lending and securities business	−0.1	–	−0.1	n/a
Net commission income	181.8	161.7	20.1	12.4%
Net financial income	−4.5	−0.1	−4.4	(< −300%)
Other operating profit	−0.4	−2.1	1.7	81.0%
Total income	**182.1**	**163.7**	18.4	11.2%
Administrative expenses (including depreciation)	170.0	165.4	4.6	2.8%
Restructuring expenses	6.0	1.6	4.4	275.0%
Total expenses	**176.1**	**167.0**	9.1	5.4%
Economic result without Treasury function	**6.0**	**−3.3**	9.3	281.8%
Treasury function	−1.9	−1.6	−0.3	−18.8%
Economic result	**4.1**	**−4.8**	8.9	185.4%

Business development and profit performance in the Capital Markets business division

Despite a challenging market climate, the Capital Markets business division generated a satisfactory economic result in 2018. As expected, however, valuation effects meant that this did not reach the high level of the previous year. As the Deka Group's product, solutions and infrastructure provider, the division plays an important role in the customer-centric approach of the *Wertpapierhaus*. The division further refined its product and advisory offering in the reporting year with a view to the regulatory capital requirement.

Business development in the Capital Markets business division

The Collateral Trading & Currency unit showed with its positioning e.g. in securities lending and collateral management a good course of business. The expansionary monetary policy of the ECB and resulting oversupply of liquidity in the market remained a key factor in the 2018 financial year. The ECB's phase-out of its bond purchase programme from October had no significant impact on profit performance in 2018.

The Commission Business unit was able to stabilise its business in 2018. However, competition compressed margins, meaning that results fell short of the comparative figure for 2017.

The Trading & Structuring unit continued to record high demand in the third-party issues and certificates business and further expanded the new issue volume in the retail and institutional businesses. The unit further cemented its position in the retail certificates market, with net sales of €5.7bn exceeding the previous year's figure of €4.8bn. Net sales of certificates to institutional customers totalled €2.4bn (previous year: €2.8bn).

Profit performance in the Capital Markets business division

The division achieved an economic result of €85.0m in financial year 2018 (previous year: €206.8m). Valuation effects on banking book portfolios and declining margins in the Commission Business unit were pivotal. There was also a higher negative contribution from the Treasury function, again as a result of valuation effects. Expenses of €172.1m were slightly above the previous year's level.

Profit performance in the Capital Markets business division *in €m (Fig. 12)*

	2018	2017[1)]	Change	
Net interest income	45.3	39.2	6.1	15.6%
Risk provisions in the lending and securities business	8.3	11.8	–3.5	–29.7%
Net commission income	56.3	51.2	5.1	10.0%
Net financial income	215.2	292.5	–77.3	–26.4%
Other operating profit	5.0	2.3	2.7	117.4%
Total income	**330.1**	**397.0**	–66.9	–16.9%
Administrative expenses (including depreciation)	172.1	166.3	5.8	3.5%
Total expenses	**172.1**	**166.3**	5.8	3.5%
Economic result without Treasury function	**158.1**	**230.7**	–72.6	–31.5%
Treasury function	–73.1	–23.9	–49.2	–205.9%
Economic result	**85.0**	**206.8**	–121.8	–58.9%

1) The remaining portfolios of non-core business were transferred to the Capital Markets business division as of 1 January 2018. The figures for the year 2017 have been adjusted.

Business development and profit performance in the Financing business division

The Financing business division noticeably improved its economic result compared to the previous year, primarily thanks to higher net interest income and a positive risk provisioning result. The specialised and real estate financing portfolios expanded considerably year-on-year, mainly due to strong new business combined with lower than expected repayments. The division’s gross loan volume increased noticeably from the end of 2017 (€21.6bn) to reach €24.0bn.

Business development in the Financing business division

Gross loan volume in the Specialised Financing subdivision rose to €14.2bn (year-end 2017: €13.0bn). This was attributable primarily to significant acquisitions in the infrastructure and transport financing segments. Of the year-end portfolio, €3.1bn related to infrastructure financing (year-end 2017: €2.4bn), €1.5bn to export financing (year-end 2017: €1.1bn), €1.2bn to public sector financing (year-end 2017: €0.8bn), and €4.5bn to transport financing (year-end 2017: €3.9bn). Transport financing comprised ship financing of almost €0.9bn and aircraft financing of €3.6bn. Total loans to savings banks fell to €3.7bn (year-end 2017: €4.5bn) due to lower demand.

The legacy portfolio, which primarily contains legacy ship financing loans that were made before the lending risk strategy was changed in 2010, was reduced further to €0.3bn (year-end 2017: €0.4bn). Legacy ship financing accounted for approximately 90% of this total.

Gross loan volume in the Real Estate Financing subdivision rose over the course of the year to €9.8bn (year-end 2017: €8.6bn). The volume of commercial property loans rose substantially to €7.8bn (year-end 2017: €7.1bn). Financing volume in open-ended real estate funds also increased, reaching €1.9bn (year-end 2017: €1.4bn).

Compared to year-end 2017, the average rating for the loan portfolio according to the DSGV master scale declined by one notch from 5 to 6. This corresponds to a decline from BBB– to BB+ on S&P’s external rating scale. The average rating for Specialised Financing slipped from 5 to 7 over the same period (S&P: BBB– to BB), while that for Real Estate Financing fell from 3 to 4 (S&P: BBB to BBB–). Taking account of collateralised assets, the average rating for Real Estate Financing remained unchanged at AAA on the DSGV master scale (S&P: AAA).

New business volume in the Financing division in 2018 stood at €6.7bn, of which €3.8bn was attributable to the Specialised Financing subdivision and €2.9bn to the Real Estate Financing subdivision. Savings bank financing accounted for approximately 7% of new business arranged.

The total volume of placements was €1.0bn. As expected, this was below the previous year's figure of €2.2bn. Around 40% of this was placed directly with the *Sparkassen-Finanzgruppe*.

Profit performance in the Financing business division
The Financing business division achieved a substantial year-on-year improvement in its economic result, which rose from €50.5m in the previous year to €67.4m. The key drivers on the income side were the appreciable rise in net interest income and a highly positive risk provisioning result due to the reversal of provisions no longer required and income on written-down receivables. This largely offset the negative effect arising from fair value loans in net financial income. At €–35.0m, the negative contribution from the Treasury function was greater than in the previous year (€–16.9m). Expenses totalled €54.7m and were therefore lower than in the previous year.

Profit performance in the Financing business division *in €m (Fig. 13)*

	2018	2017	Change	
Net interest income[1]	126.4	113.3	13.1	11.6%
Risk provisions in the lending and securities business	14.7	–29.7	44.4	149.5%
Net commission income	29.6	34.3	–4.7	–13.7%
Net financial income[1]	–15.2	–8.5	–6.7	–78.8%
Other operating profit	1.7	14.6	–12.9	–88.4%
Total income	**157.1**	**123.9**	33.2	26.8%
Administrative expenses (including depreciation)	54.7	56.6	–1.9	–3.4%
Total expenses	**54.7**	**56.6**	–1.9	–3.4%
Economic result without Treasury function	**102.4**	**67.4**	35.0	51.9%
Treasury function	–35.0	–16.9	–18.1	–107.1%
Economic result	**67.4**	**50.5**	16.9	33.5%

[1] Net income of €0.4m from the disposal of assets recognised at amortised cost (previous year: €1.0m) was recognised in net financial income for the first time in 2018. This was disclosed under net interest income in the previous year. The prior-year figures have been adjusted to aid comparison.

Financial position of the Deka Group

Financial management principles and objectives

Via its Treasury corporate centre, DekaBank pursues an integrated approach aimed at the efficient active management of group-wide liquidity, thus ensuring that flexibility and investor trust are retained even in difficult market situations. DekaBank acts as a liquidity platform, both through the close integration of asset management and banking activities and by operating cash pooling for the savings banks.

The Bank has high volumes of central bank-eligible highly liquid assets, which can be used to generate liquidity via various market access routes at any time.

Liquidity investing remains focused on investments in credit balances held with central banks, bonds issued by German federal states, German development banks, German run-off institutions, German *Pfandbriefe*, supranational institutions and investment-grade corporate bonds.

Deka's good ratings also enable access on stable and competitive terms to the money and capital markets. In order to achieve a diversified refinancing position, DekaBank uses a variety of refinancing instruments and issue programmes which ensure that funding is obtained from a broad, diversified range of sources with a variety of currencies, maturities, products and investors. On the money market, particular use for refinancing purposes is made of traditional overnight money and time deposits and commercial paper.

The Deka Group's equity management ensures adequate capital and reserves.

See also: Consolidated financial statements, pages 100 ff.

Derivative financial instruments are used for trading purposes and to hedge interest rate risks, currency risks and other price risks in the banking book and trading book. DekaBank does not have extensive open interest or currency positions. Details of derivative transactions can be found in the consolidated financial statements.

Financial position, capital structure, assets and liabilities

The Deka Group's total assets increased year-on-year by approximately 7% to €100.4bn (previous year: €93.7bn).

The amount due from banks and customers rose during the reporting period by a total of €1.3bn to €48.4bn and equated to around half of total assets. This movement resulted mainly from the expansion of lending. Cash reserves with central banks totalled €15.3bn, compared with €10.0bn in the previous year. The €6.9bn reduction in financial assets at fair value and €7.0bn increase in financial investments was mainly due to the reclassification of financial assets as part of the first-time application of IFRS 9. At the reporting date, financial assets at fair value and financial investments made up 25% and 11% of total assets respectively.

Amounts due to banks and customers rose collectively by €2.8bn to €48.7bn, and thus accounted for around 48% of total assets. This movement resulted mainly from the increase in deposits from banks. Securitised liabilities increased during the reporting year by €0.6bn to €14.8bn. The decline in bonds issued was more than offset by an increase in money market refinancing via commercial paper. Financial liabilities at fair value rose particularly as a result of a substantial €3.3bn increase in trading issues to €29.3bn.

Changes in the Deka Group balance sheet *in €m (Fig. 14)*

	31 Dec 2018	31 Dec 2017	Change	
Total assets[1]	**100,444**	**93,775**	6,669	7.1%
Selected asset items				
Due from banks and customers	48,393	47,047	1,346	2.9%
Financial assets at fair value	25,045	31,985	–6,940	–21.7%
Financial investments	10,795	3,791	7,004	184.8%
Selected liability items				
Due to banks and customers	48,673	45,899	2,774	6.0%
Securitised liabilities	14,791	14,235	556	3.9%
Financial liabilities at fair value	29,307	25,983	3,324	12.8%

[1] Previous year's figures have been adjusted (see also note [43] "Income taxes").

Changes in regulatory capital (own funds)

Capital adequacy is determined in accordance with the CRR/CRD IV. Alongside credit risk, market risk and operational risk, the credit valuation adjustment (CVA) risk is also taken into account. In accordance with the provisions of the Capital Requirements Regulation (CRR) and the German act implementing the EU Capital Requirements Directive (CRD IV), capital ratios are reported both on a phase-in basis (i.e. applying the transitional provisions) and on a fully loaded basis (without transitional provisions).

The own funds requirement under supervisory law was complied with at all times during the year.

See also: Overall statement on the business trend and the Group's position: pages 36 ff.

The change in the Common Equity Tier 1 capital ratio (fully loaded) is described as part of the overall commentary on the business trend and the Group's position. The corresponding total capital ratio stood at 19.8% at year-end (year-end 2017: 21.9%).

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 balance sheet assets as adjusted in line with regulatory requirements, amounted to 4.6% (fully loaded) at 31 December 2018, compared with 4.7% at the end of 2017. A leverage ratio of 4.6% is disclosed under the phase-in rules (year-end 2017: 4.8%). This is substantially above the minimum leverage ratio of 3.0% that is expected to apply in 2019.

Deka Group own funds *in €m (Fig. 15)*

	31 Dec 2018		31 Dec 2017	
	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 (CET 1) capital	4,460	4,460	4,145	4,238
Additional Tier 1 (AT 1) capital	474	495	474	437
Tier 1 capital	**4,933**	**4,954**	**4,619**	**4,676**
Tier 2 (T2) capital	807	807	823	817
Own funds	**5,741**	**5,762**	**5,442**	**5,492**
Credit risk	18,744	18,744	15,568	15,568
Market risk	6,348	6,348	5,127	5,127
Operational risk	3,365	3,365	3,242	3,242
CVA risk	565	565	950	950
Risk-weighted assets	**29,021**	**29,021**	**24,886**	**24,886**
%				
Common Equity Tier 1 capital ratio	**15.4**	**15.4**	**16.7**	**17.0**
Tier 1 capital ratio	**17.0**	**17.1**	**18.6**	**18.8**
Total capital ratio	**19.8**	**19.9**	**21.9**	**22.1**

Liquidity and refinancing

See also:
Liquidity risk:
pages 89 ff.

The liquidity management requirements set out in the Minimum Requirements for Risk Management (*Mindestanforderungen an das Risikomanagement* – MaRisk) were fully satisfied throughout 2018. The requirements of the German Liquidity Regulation (*Liquiditätsverordnung*) were likewise complied with during the year. The Deka Group's liquidity coverage ratio (LCR) declined to 149.8% at the end of 2018 (year-end 2017: 152.5%). 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 domestic and international money market and capital market instruments. This includes issues of *Pfandbriefe*, short-term bearer bonds based on the commercial paper (CP) programme, and medium to long-term unsecured bearer bonds based on the debt issuance programme and the programmes for structured issues and certificates. These activities are supplemented by placements of registered debt securities and promissory note loans. DekaBank also uses the repo and lending markets, call money and time deposits to raise and invest liquidity.

Human resources report

The total number of employees at the end of 2018 stood at 4,716 and was almost unchanged since the previous year (year-end 2017: 4,649). 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 earnings-relevant full-time equivalents increased by 2.5% compared with the end of 2017, to 4,178.8. The total includes part-time employees actively involved in work processes in the Deka Group, who are counted *pro rata* on the basis of their working hours. The main increases were in the central compliance and information security functions, risk management for securities funds, and custody services. At the year-end, approximately 80% of the workforce were employed in full-time posts. The average age of active employees (excluding apprentices and inactive staff members) was 44.3 years (previous year: 43.8 years). Further key indicators regarding sustainable HR management can be found in the sustainability report.

The Deka Group continued in the reporting year to pursue HR policies designed around the best possible implementation of the corporate strategy. Key aspects included increasing the Deka Group's attractiveness as an employer using an employer branding approach, as well as reorienting skills development in the context of digitalisation. Training sessions, VUCA (Volatility Uncertainty Complexity Ambiguity) workshops and other formats were introduced for this purpose in Human Resources & Organisation. These will give employees even better support in future to help them expand their technical, methodological and personal skills in line with the requirements of working in the world of Industry 4.0.

The Deka Group also promotes the career development of high-performing and high-potential staff through various formats. As a signatory to the UN Women's Empowerment Principles, it pays particular attention to women's career development. In July 2018, Deka was recognised for the fifth time in the "career and family audit" (*Audit berufundfamilie*) for its various measures to promote a work-life balance and family-friendly HR policy.