Forecast and opportunities report

Forecast report

Forward-looking statements

The Deka Group's planning is based on the assumptions about future economic development that appear the most probable from a current standpoint. However, plans and statements about expected developments and the course of business during 2019 are subject to uncertainty. Actual trends in the international capital, money and property markets or in the Deka Group's business divisions may diverge significantly 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 2019 financial year. Conversely, opportunities may result in expectations being exceeded.

Expected macroeconomic trends

DekaBank's economists expect global growth of 3.4% in 2019, representing a moderate slowdown compared to the reporting year. Neither the industrialised nations (1.8%) nor the emerging markets (4.5%) are likely to match the growth rates seen in 2018. Forecasts indicate slower expansion in the eurozone, partly due to the dips in growth anticipated in Italy, along with a visible slowdown in the US and in central and eastern Europe. This contrasts with the recovery expected in Latin America and relatively stable growth in Asia. Consumer spending will remain the bedrock of global growth, while momentum in global trade flows and investment is likely to remain subdued, partly due to mounting trade disputes.

There is significant uncertainty concerning the nature and timing of the UK's withdrawal from the EU. An orderly exit, or "deal", in the near future (in time for the scheduled exit on 29 March 2019) is not guaranteed, as the EU is currently rejecting further negotiations. In addition, the "backstop" arrangement, which will maintain the customs union in the event that the two sides fail to conclude a mutually satisfactory new trade agreement, is opposed by many British Members of Parliament. If the British government wants to enact its own trade laws, it must be clarified how, on the island of Ireland, EU law (in the Republic of Ireland) and the new British regulations (in Northern Ireland) can coexist without a visible border. Two further possibilities are being discussed: A disorderly (hard) Brexit would occur automatically if the British parliament is unable to ratify a withdrawal agreement. Such a Brexit would likely have substantial economic consequences, especially in the UK. However, the impact on growth and capital markets would probably be temporary. A more likely outcome is a postponement of the exit date beyond 29 March 2019. This would either simply allow more time to coordinate a deal or imply the resignation of, or a renewed (and successful) vote of no confidence in, the current government under Theresa May, resulting in new elections. In the latter case, the possibility of another referendum cannot be ruled out. In any event, the UK's exit from the EU continues to pose a political risk to growth and capital markets.

Only in the emerging markets is consumer price inflation likely to accelerate somewhat. This will enable the monetary policy turnaround by central banks to remain gentle, allowing a gradual retreat from ultra-expansionary monetary policy without seriously threatening global growth.

Expected environment for asset management

Despite the end of the bond purchase programme, the eurozone's withdrawal from its extremely expansionary central bank policy will be considerably slower than that of the US. Real interest rates are expected to remain negative, providing continued tailwind for securities investments. Given the changing interest rate expectations and growing geopolitical risks, however, a moderate rise in equity markets is likely to be accompanied by higher volatility, meaning that temporary price adjustments could well be pronounced. This could reduce investors' risk appetite and temporarily hinder sales of share-based fund products. The continuing trend on the part of investors towards avoiding negative real interest rates is a good basis for long-term securities saving.

This is also true of real estate asset management, which continues to represent an appealing asset class. However, investment opportunities for real estate funds remain limited, meaning that restraint is still called for when attracting new inflows. A medium-term slowdown in rental growth and future rises in initial yields as a result of expected interest rate hikes will pose particular challenges to fund managers.

Expected environment for the banking business

The expected slight slowdown in growth in the eurozone accompanied by only a modest increase in core inflation makes it unlikely that base rates will be raised at any point in 2019. Deka economists therefore expect money market rates (3-month EURIBOR) to remain in negative territory for the time being. On the bond market, meanwhile, a steepening of the Bund curve is expected in advance of the anticipated interest rate move. The strongly negative maturity premiums in the yields on long-dated German government bonds are likely to fall. In the US bond market, the yield spread between medium- and longer-term maturities is expected to narrow. Yields on corporate bonds are also forecast to rise in 2019, though the ECB's exit from its bond purchase programme has already been largely priced in. Growing political and economic risks may manifest themselves in higher volatilities, increasing risk premiums, value mark-downs and rating downgrades.

In the individual market segments of its capital markets business, the Deka Group expects only moderate changes compared to 2018. The commission business and derivatives trading will continue to experience strong competition and pressure on margins. In the financing business, the continuing high level of market liquidity and investment pressure among institutional investors will also put heavy pressure on margins, which may be reflected in the terms and conditions offered.

Overall assessment of the economic trends

Overall, despite generally stable economic growth, the Deka Group expects a challenging economic environment for asset management in financial year 2019. A pronounced stock market correction could negatively affect total customer assets through negative investment performance and investor caution. On the other hand, the considerable financial assets of private households generally and savings bank customers in particular hold enormous potential for fund sales. Returns on assets in the banking business will remain under pressure.

Expected business development and profit performance

For financial year 2019, the Deka Group has set itself the goal of achieving progress in all three aspects of DekaPro: customer centricity, growth and efficiency. This is also reflected in the Group's expectations for its key performance indicators.

The Group's economic result in 2019 is expected to remain at the level seen in the reporting year. The forecast economic result will ensure that DekaBank remains able to distribute profits and to make the reinvestments necessary for the purposes of capital management.

Expected returns for 2019 are based on ambitious sales plans combined with an investment fund business that maintains lasting value, including regular securities saving. Overall, net sales are expected to be significantly up on the previous year's figure.

The Asset Management Securities business division is aiming for higher net sales, and therefore an increase in total customer assets. The expected improvement in sales performance will be based, among other things, on marketing measures and the enhancement of the online and multichannel offering. This will be accompanied by an improved product offering for lump-sum investments, investment fund savings and fund-based asset management. A rise in net sales is planned for the institutional business, driven primarily by sales of special funds and mandates.

Risks lie in a quicker than expected turnaround in interest rates, which could put pressure on equity markets and adversely affect investors' risk appetite. Regulatory measures and geopolitical risks could also lead to the outflow of funds. In addition, a pronounced stock market correction could negatively affect total customer assets.

The Asset Management Real Estate business division aims to improve net sales in the institutional business again – without changing sales quotas for mutual real estate funds – and achieve an overall increase in total customer assets. The strategic focus on core real estate along with strong commitments regarding quality and stability make the division the first-choice partner for the savings banks and their customers when investing in commercial property. Potential in the institutional sector is to be tapped through new products, including in connection with the tried-and-tested Deka Property Compass, and intensified sales activities, among other things. Moreover, the division plans to reinforce its attractiveness to sustainability-oriented investors by consistently taking into account sustainability criteria in portfolio management and when purchasing property.

Risks to future performance arise from fierce competition in the transaction markets, which makes transaction planning difficult. While the interest-driven boom improves sale prospects, it also puts increased requirements on the structuring of property purchases. There is also the risk of cyclical changes in value in the event of a downturn on property markets.

For 2019, the Asset Management Services business division aims to increase assets under custody in line with the targeted asset management growth. In so doing, it also aims to consolidate its positioning in the *Sparkassen-Finanzgruppe*. The Digital Multichannel Management subdivision will put a special focus on enhancing the "internet branch" and integrating it with sales channels based on physical branches and other media. Multichannel sales services will be stepped up through better provision of information, support in actively approaching customers and other initiatives. The Deka Group will cement the position of the Depositary subdivision through growth in the Deka Group investment companies' mutual funds and by obtaining third-party mandates.

Risks to future performance include rising pressure on margins for depositaries as well as market-induced outflows of funds. In Digital Multichannel Management, rising expenses may result, among other things, from changes in the regulatory environment.

The Capital Markets business division will continue its existing strategic direction as a customer-centric product and solution provider focused on DekaBank's structured products and the derivatives, issuance and trading businesses. This is the division's way of reacting to both regulatory requirements and current market developments. In certificates business, a greater focus will be placed on retail products. The Deka Group will continue to position itself as an infrastructure provider with global capital market access by, among other things, expanding functionality and systematically digitalising the existing platform solutions.

Risks arise particularly from a drop in customer activity prompted by political or market/economic events, regulatory intervention in the design of products and definition of terms and conditions, further increased market pressure on fees and greater competition among brokers.

The Financing business division aims to increase new business in 2019 in its defined core segments in specialised and real estate financing. The planned expansion of the lending portfolio will serve as a basis for sustainable contributions to the division's results. Key to this are both the extension of our positioning as a quality leader and a broadening of the product offering in existing asset classes. In a market environment that remains competitive, the division is remaining true to its stability-oriented and low-risk strategy.

Risks include political crises, which could adversely affect the economic outlook for lending segments in which we operate. This could lead to a need for higher loan loss provisions, or to increased capital adequacy requirements as a result of a downgrading of our credit ratings. The long acquisition periods and intense competitive pressure for credit assets may also mean that the ambitious new business volume cannot be achieved.

Expected financial and risk position

For 2019 the Deka Group is anticipating a continued sound financial position with virtually stable total assets. While a volume increase is planned in the financing business, a reduction in volume is expected in the Capital Markets business division. Balance sheet management is geared towards ensuring compliance with the minimum 3.0% leverage ratio that is expected to apply in 2019.

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

Despite anticipated charges for guarantee and *Riester* pension products among other things, the Common Equity Tier 1 capital ratio (fully loaded) is expected to considerably exceed the 13% target.

Risk appetite utilisation is expected to remain at a non-critical level in future, despite a slight increase. With risk appetite almost unchanged, the planned new business in the Financing business division will be pivotal to this increase, resulting in a noticeably higher level of counterparty risk than at the end of 2018. Utilisation of risk capacity will likely rise appreciably in view of planned changes to the methodology, while also remaining at a non-critical level.

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

		31 Dec 2018	Forecast 2019
Economic result	€m	451.8	stable compared to the previous year
Total customer assets	€bn	275.9	noticeably above the previous year
Net sales	€bn	11.8	noticeably above the previous year
Common Equity Tier 1 capital ratio (fully loaded)	%	15.4	Over 13%
Utilisation of risk capacity	%	42.1	noticeably above the previous year

Opportunities report

Opportunity management

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

Opportunities are defined as positive deviations from the assumptions made for planning purposes over a one-year horizon. These essentially fall into three categories:

- Opportunities arising from changes in circumstances result from market developments that are more favourable than expected. These include regulatory changes or changing investment trends on the part of customers.
- Corporate strategy opportunities are mainly linked to implementation of the DekaPro programme of initiatives. Positive effects linked to the growth and digitalisation initiatives may be more extensive or occur sooner than assumed in the forecast report.
- Further opportunities exist in that process improvements may be better than planned or positive impacts on results may arise from cost efficiency improvements, likewise in the context of DekaPro.

Current opportunities

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

It is thus possible that, contrary to expectations, a substantial rise in index levels could lead to strong growth in total customer assets and have a positive impact on net commission income. Moreover, the departure, initiated in the reporting year, from an ultra-expansionary monetary policy could materialise more quickly than expected in a positive macroeconomic scenario with rising core inflation. The resulting increase in yields at the long end, associated with a steepening yield curve, could improve the conditions for investing own funds and managing liquidity.

A favourable macroeconomic scenario such as this would improve general conditions, most notably for securities- and property-related asset management and capital market activities. This scenario is seen as rather unlikely, however.

Opportunities on the market could also be generated by an even stronger shift towards funds for financial savings. However, the Deka Group anticipates that this process will continue to take place only gradually. Nonetheless, if the popularity of funds and certificates should increase, this would have a beneficial impact on net sales and total customer assets.

There are strategic and other opportunities associated with the consistent implementation of DekaPro. The resultant effects have already been incorporated into the planning for 2019, meaning that any further positive impacts on the Deka Group's business and results are unlikely.