

Group management report

At a glance

DekaBank, the *Wertpapierhaus* for the savings banks, continued in its centenary year to work on the areas that have been at the heart of its activities since launching the *Wertpapierhaus* strategy: tailoring its business model to savings banks, savings bank customers and institutional investors, and striving to be a valued investment partner. With this clear sense of direction, the Deka Group achieved a satisfactory economic result of €451.8m (previous year: €448.9m) despite a challenging market environment. Income increased slightly to a total of €1,509.0m (previous year: €1,494.1m). Expenses amounted to €1,057.2m in total, representing a moderate increase compared with the previous year (€1,045.2m).

The Deka Group was unable to fully escape the cyclical effects arising from the negative performance of almost all asset classes in 2018. At €275.9bn, the Deka Group's total customer assets were therefore slightly down on the level recorded at the end of 2017 (€282.9bn). This was despite net sales of €11.8bn. Net sales fell short of the high prior-year figure (€25.7bn), partly due to a one-off effect in institutional customer business. The positive sales performance was accompanied by market-induced negative investment performance at the reporting date, distributions (from which customers benefited) and certificate redemptions.

The DekaPro programme of initiatives, which was launched at the beginning of the reporting year, aims to promote growth and efficiency by making the Deka Group more customer-centric. All aspects of the programme gathered pace over the course of the year. Enhancing processes will enable them to be integrated even more smoothly into the workflows of savings banks, their customers and institutional investors. This trend is also being supported by increasing automation using innovative technologies such as robotics, machine learning, artificial intelligence and blockchain.

Confirmation of the high quality of Deka's products and solutions came from Finanzen Verlag, which named Deka as their "Fund Manager of the Year" for 2018 – the first time Deka has won this accolade – as well as from the 2018 Capital-Fonds-Kompass awards, where Deka was awarded the maximum five-star rating.

Thanks to its robust financial position, which is also reflected in a good credit rating, the Deka Group is able to fully lock on to its strategic path – DekaPro – and lay the foundation to create lasting high value added in the years to come. At the end of 2018, the Common Equity Tier 1 capital ratio (fully loaded) stood at 15.4% and the leverage ratio (fully loaded) at 4.6%. The liquidity coverage ratio was 149.8% at year-end 2018, comfortably above the minimum requirement of 100% applicable since the start of 2018. At 42.1%, utilisation of risk capacity remained at a non-critical level.

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Deka Group profile and strategy

DekaBank is the *Wertpapierhaus* for the savings banks. The Deka Group is made up of DekaBank and its subsidiaries. Through its asset management and banking activities, it acts as a service provider for the investment, administration and management of assets, supporting savings banks, their customers and institutional investors at every stage in the investment process. It also offers comprehensive advice and solutions both to the savings banks and to institutional customers outside the *Sparkassen-Finanzgruppe* on investing, liquidity and risk management, and refinancing.

Legal structure and corporate governance

DekaBank Deutsche Girozentrale is a German federal institution incorporated under public law with registered offices in Frankfurt am Main and Berlin. It is wholly owned by the German savings banks. 50% of the shares are held via Deka Erwerbsgesellschaft mbH & Co. KG. The savings banks hold their interests via this company, which is owned by their regional savings bank and giro associations. The other 50% of the shares are held by the German Savings Bank and Giro Association (*Deutscher Sparkassen- und Giroverband – DSGVO*).

The Deka Group strictly adheres to the principles of good and responsible corporate management. The corporate governance concept for the management and supervision of the Group ensures that the responsibilities of board and committees are clearly defined and enables efficient decision-making processes.

Corporate governance

DekaBank is managed collectively by the Board of Management, which continued to comprise five members as at the 2018 reporting date. Responsibility for Human Resources & Organisation was transferred from Martin K. Müller to Michael Rüdiger as from 1 January 2018. Responsibilities as at the end of 2018 were thus as follows:

- CEO, Asset Management Securities: Michael Rüdiger
- Deputy CEO, Savings Banks Sales & Marketing: Dr Georg Stocker
- Risk (CRO): Manuela Better
- Finance (CFO), Treasury and Asset Management Real Estate: Dr Matthias Danne
- Banking business and IT: Martin K. Müller

Michael Rüdiger announced in early December 2018 that he would be leaving the Deka Group during 2019. He is leaving at his own request for personal reasons. The Administrative Board will decide in due course on his successor as CEO and on a new appointment to the Board of Management.

The members of the Board of Management are supported by in-house management committees in an advisory capacity. In addition, DekaBank actively incorporates representatives of the *Sparkassen-Finanzgruppe* into its decision-making process via three specialist advisory boards, which advise the Board of Management, and six regional sales committees. The Board of Management uses their expertise and proximity to the market to develop business further.

The Administrative Board oversees the Board of Management and thus performs a supervisory role. It comprises shareholder and employee representatives as well as representatives from the *Bundesvereinigung der kommunalen Spitzenverbände* (German Federal Association of Central Municipal Organisations), who act in an advisory capacity. The Administrative Board's work is performed in part by the full Board and in part by various committees. To this end, the Administrative Board has established a General and Nomination Committee, an Audit Committee, a Remuneration Supervision Committee and a Risk and Credit Committee. The German Federal Minister of Finance is responsible for general governmental supervision.

Sustainable governance and non-financial statement

The Deka Group's sustainability strategy is an integral part of its corporate strategy. Deka has committed itself to national and international standards (UN Global Compact, Equator Principles and the German Sustainability Code) and is constantly improving its portfolio of sustainable products and services. As a signatory to the Frankfurt Declaration, it also supports the creation of sustainable infrastructures in the financial sector and is actively accompanying the discussion of the European Commission's Action Plan: Financing Sustainable Growth. Since the reporting year, it has additionally been an official supporter of the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD's primary aim is to develop common standards for the disclosure of companies' climate-related financial risks. The Deka Group supports the United Nations Sustainable Development Goals, among other things by funding relevant projects. These include electricity generation from renewable energy, transport or storage of renewable

energy, and modernisation of production facilities to significantly reduce CO₂. A corresponding whitelist was created in the 2018 financial year and the blacklist was considerably expanded.

The annual sustainability report provides detailed information on the sustainable management of the Deka Group. It includes the Deka Group's non-financial statement pursuant to the German CSR Directive Implementation Act (*CSR-Richtlinie-Umsetzungsgesetz*). The declaration sets out, in particular, targets, measures and due diligence processes for the environmental, social and employee concerns that are significant to the Group's business model, as well as for the upholding of human rights and the combating of bribery and corruption.



See also:
www.deka.de/deka-group/sustainability

The annual sustainability report including the non-financial statement does not form part of the Group management report. In accordance with the statutory publication deadlines, it is published by the end of April each year on the Deka Group website (www.deka.de/deka-group/sustainability), where it will remain accessible for at least ten years.

Business model

The business model of the Deka Group is characterised by close collaboration between asset management and banking business. The Group's asset management products comprise securities funds, real estate funds, credit funds and capital markets certificates, together with the associated asset management services for private and institutional investors. Such services include investment fund support for asset managers and support for institutional customers in their asset, capital, liquidity and risk management. In this regard, the Deka Group acts as finance provider, issuer, structurer, trustee and depositary (custodian bank).

In addition to asset management activities in the narrower sense, the Deka Group also provides the execution of securities trading, custody accounts, asset servicing and depositary services. The range of advisory and other services for asset management purposes, which can be used by savings banks and other institutional customers, encompasses the bank's role as a liquidity and collateral platform, its securities lending services, and support with the purchasing and settlement of securities and derivatives, including clearing. The Deka Group also offers supplementary services such as market analyses, collateral agreements and regulatory compliance (including market conformity tests and trade repository reporting).

In securities funds and real estate funds, the Deka Group primarily earns commission income in the form of management and transaction fees. Subject to regulatory requirements, some of this income is passed on as an "association payment" to the savings banks in their capacity as sales partners. Additional commission income is generated from banking transactions, including capital market activities. Interest income is obtained primarily from specialised financing and real estate finance, as well as from the Capital Markets business division and Treasury operations.

Deka Group strategy

Strategic objectives

The Deka Group's strategy is geared towards supporting the savings banks with their important role in helping German households build capital and with all issues relating to the securities investments of retail and corporate customers. This encompasses branch and internet sales, lump-sum investments, asset management and savings plans, training measures and the standardisation of the sales management process. The Deka Group also offers customised investment products for institutional customers in Germany and other countries, as well as advisory and infrastructure services to enable them to meet their business objectives safely and efficiently in a challenging market and regulatory environment.

With this approach, the Deka Group is positioning itself as a customer-centric *Wertpapierhaus* for the savings banks. At every level and in every field, it gears its services and workflows to the needs and processes of customers. This constantly refined promise of performance is backed up by the strengths of an integrated business model that is founded on both asset management and banking.

The DekaPro programme combines initiatives aimed at the growth-oriented further development of the retail and institutional business, the improvement of value added, a more flexible cost structure, and the digitalisation of customer interfaces, products and processes. Launched at the beginning of 2018, this programme of initiatives sets the direction for the Deka Group's strategic and operational focus in the coming years. With DekaPro, the Deka Group is investing in a robust, increasingly digitalised business model with long-term viability and preserving the balance between focused growth, performance orientation and efficiency.

Priorities in the 2018 financial year

Customer centricity

DekaPro ingrains the customer-centric orientation more deeply in the business model and organisation as a whole. The relevant customer segments for this approach are, firstly, the savings banks with their requirements for proprietary business, as well as their end customers. Individual customers, high net worth private clients and – closely related to these – commercial and corporate customers of the savings banks also constitute an important target group in this regard. Secondly, the Deka Group supports institutional customers. Besides the savings banks, these include insurance companies, pension funds, foundations, family offices, corporates in various sectors and the domestic public sector. Deka aims to acquire and serve these customers in partnership with the savings banks.

DekaPro aligns the Deka Group's advice, products, services and internal processes even more rigorously with the expectations, needs and processes of the relevant customer groups. All DekaPro initiatives are consistently thought out from the customer's perspective, leading to the improvement, streamlining and partial automation of core processes along with the partial realignment of Deka's product and service range. DekaPro also involves investing in areas that will be important to customers in the future and driving these agendas forward with a high pace of development. This includes, for example, creating a multichannel-oriented offering that works seamlessly across physical and "internet branches", or providing digital asset management. These efforts will allow the Deka Group to realise growth potential in its business with savings banks, savings bank customers and institutional investors.

The importance of customer-centricity is also reflected in closer customer relationships. Formats, both tried-and-tested and newly developed, are helping to expand business in the savings bank sector and beyond. At the Sustainability Day, for example, Deka informed insurance companies and pension funds about the importance of sustainability concerns in asset allocation. The Family Office Radar discussed fund taxation among other topics.

The Deka Group won various important awards in the reporting year, underscoring the fact that it is already highly appreciated by its customers. Deka Investment was chosen as "Fund Manager of the Year" (Finanzen Verlag) for the first time in 2018, scoring highly for having the best product range of Germany's major fund providers. Achieving first place in the overall ratings is confirmation of the consistent good service provided by Deka's fund management. The 2018 Capital-Fonds-Kompass awards again assigned the maximum five-star rating to Deka Investment. Deka was one of only four firms to receive the maximum rating in the past year. Individual Deka securities and real estate funds also achieved outstanding results at the EuroFund Awards and Scope Investment Awards. Deka Investment's Master KVG offering was given a score of 1 and an outlook of 1+ ("excellent") by the rating agency Telos in the reporting year. The improved rating cements Deka's position as a leading solutions provider under the *Deka Institutionell* brand.

Growth

The Deka Group aims to realise growth potential with savings banks, savings bank customers and institutional investors as a consistently customer-centric organisation.

Exploiting potential in retail business

The Deka Group helps savings banks to expand the whole of their securities business and leverage potential in securities business with retail customers. Working closely with the securities committees of the regional savings banks, sales managers and customer advisers, Deka seeks to attract savings bank customers who have so far limited themselves to deposit and credit products and to convince them of the benefits of securities investment, turning them into long-term securities customers. It also aims to help savings banks make greater use of the existing fund investor customer base with product initiatives and advice. Partly thanks to these initiatives, customers have opened more than 160 thousand new custody accounts in the space of a year, and net sales have performed positively in the retail business. This also reveals the considerable potential that remains, especially given the fast-growing monetary assets of savings bank customers.

In terms of products, the focus includes fund savings plans. After strong growth in the previous year, the number of savings plans increased again by more than 400 thousand in 2018. In lump-sum investments, the *Deka-BasisAnlage* (Deka Basic Investment) funds of funds, along with themed funds such as *Deka-Dividendenstrategie*, played a key role. Index funds (ETFs) were also more extensively incorporated into the sales offering to add to the investment mix and complement actively managed mutual funds, creating a comprehensive securities offering. Asset management concepts and robo-advisory investing combine the benefits of index funds and active fund management.

The initiatives to fully exploit the potential are accompanied by greater standardisation of investment advice, meaning considerably reduced outlay, substantially improved quality and more reliable processes for the savings banks. The modular securities concept developed for this purpose takes a customer-centric approach tailored to the sales management process of the savings banks. Following a successful pilot phase, training of Deka sales directors and the roll-out of the technical solution began at the end of 2018.

Systematic training on the securities business is continuously provided to market managers, sales managers and savings bank advisory staff.

Deka also helps the savings banks approach different end customer groups in different ways and is already working with more than 230 savings banks as part of its private banking initiative. It provides services, advisory support and special investment solutions for advisers working in private banking. New strategies for healthcare professionals have also been added.

Improving market position in institutional business

Strengthening the Deka Group's competitiveness and market position in the institutional business is another big priority. Deka is looking especially at the potential outside the *Sparkassen-Finanzgruppe* that it can leverage together with the savings banks. Having comprehensively established customers' needs, Deka formulated a new plan for institutional sales in the reporting year. This also serves as the basis for a modular catalogue of services and for customer relationship management. Individual service components are prioritised to create a strategic focus that lines up with customer requirements. Sales efforts are focusing on institutional mutual funds and special funds.

Growth in our institutional business was driven not least by platform solutions such as Deka Easy Access. This analysis, management and dealing tool was already employed by over 150 savings banks at the end of 2018. Systematically conceived from the end user's perspective, the tool allows Treasury departments at the savings banks to conveniently manage and analyse portfolios with up-to-the-minute information. As an additional service, Deka introduced the Deka Research Hub in the reporting year. This helps savings banks with lending decisions by providing extensive information on issuers' creditworthiness as well as a sustainability screening. Beyond Deka Easy Access, Deka plans to expand and integrate infrastructure services in the banking business, taking full advantage of all the opportunities of digitalisation. Through access to centrally provided services with a high level of value added – such as *Deka Treasury-Kompass*, the securities and collateral platform (including collateral management), derivatives clearing and trade repository reporting – savings banks and other institutional customers can reduce the cost of compliance with regulatory requirements.

Efficiency

The Deka Group is using various measures to ensure it performs its services efficiently and thus with lasting competitiveness, taking advantage of the opportunities provided by digital technology.

Growing with optimised value added and cost structure

Numerous measures forming part of DekaPro are designed to handle a growing volume of business with stable resources and to manage challenging regulatory requirements with an appropriate level of expenditure.

The standardisation of the Bank's internal processes, including greater use of automation, is set to noticeably reduce complexity and improve the cost structure in the coming years. Savings Bank Sales is using interdisciplinary teams to modify core processes, creating an even better fit with workflows in the savings banks.

There will also be improvements to the organisational structure and strategic direction of subsidiaries. As part of the strategic realignment, Landesbank Berlin Investment GmbH (LBB-INVEST) was renamed Deka Vermögensmanagement GmbH in the reporting year. The company's head office is in Frankfurt/Main. The company acts as a centre of expertise for asset management products, which are gradually being combined under its umbrella, as well as for boutique funds. Deka Investment GmbH is thus focussing on the fundamental and quantitative management of mutual funds, special funds and ETFs as well as on asset servicing. The equity and bond funds previously housed within LBB-INVEST have been transferred to Deka Investment GmbH.

In Luxembourg, DekaBank Deutsche Girozentrale Luxembourg S.A. is largely concentrating on producing asset management products and services. It will be converted into a branch of DekaBank to achieve even closer integration with Frankfurt/Main. Classic banking activities such as the lending business, capital market business and direct customer business will be discontinued, allowing the return of the company's banking licence.

Digitalising customer interfaces, products and processes

The digital transformation in the Deka Group is concentrated, firstly, on interfaces with savings banks and retail and institutional customers along with the products and services available for these groups. Deka is also concentrating on digitalising its internal processes. Digitalisation therefore has major overlaps with other DekaPro initiatives as it is essential to the customer-centric development of the Deka product and service portfolio and to efficiency along the value chain. A digitalisation circle and expert group for digitalisation have been created to coordinate activities and drive the process of digital transformation.

Digitalising the customer interface

The products and services developed and provided by Deka for the multichannel sale of securities had already been integrated into the "internet branches" of more than 300 savings banks by the end of 2018. The future aim is to provide savings banks and their customers with a securities offering that enables every step from selection to subscription to take place seamlessly across different media. In building up online securities business and expanding the associated product packages, Deka takes account of the needs of both execution-only customers and the savings banks' multichannel customers. The savings banks' branch-based approach is thus perfectly dovetailed with multichannel banking. Ongoing development has brought a range of improvements for end customers over the past year, including extensions to the custody account dashboard and new ways for savings bank customers to contact customer advisers. The incorporation of stocks and shares functions into the *Sparkassen-Finanzgruppe* app goes hand in hand with the expansion of online execution processes. An attractive range of information on products and market developments helps investors take decisions.

At the subsidiary bevestor GmbH, an interdisciplinary team of experienced experts in securities and digital technology are developing solutions that offer private investors simple and transparent ways to invest and manage assets digitally. An integrated investment assistant helps users assess and choose investments themselves, for example. Model portfolios with different risk profiles are provided as a basis for individual investment along with three actively managed funds of funds. The business magazine *Capital* tested robo-advisory services in 2018 and awarded bevestor's digital offering for customers the top score of five stars. S Broker expanded its range of savings plans in 2018, also to include ETF savings plans from Deka. It also increased order numbers, partly through campaigns allowing investors to buy for free. S Broker is also of growing importance to the modular implementation of the Deka Group's custody account strategy.

Digitalising products and processes

To accelerate the digital transformation, Deka created the Open Digital Factory during the reporting year. Here, interdisciplinary, agile teams from IT and other departments develop and test innovative digital solutions. They have focused initially on robotic process automation (RPA). At the end of 2018, more than 40 software robots were already being used to automate processes and make them more robust, which has considerably reduced throughput time. The factory has also been working on developing the first machine learning prototypes, for instance to process standard transactions using chatbots. The use of artificial intelligence (AI) for forecasting models has also been successfully tested, for instance to trigger adjustments to asset allocation. The third area of emphasis in the reporting year was the use of blockchain technology. For example, Deka has developed a digital promissory note loan together with other banks. Other digital key technologies such as cloud computing and DevOps are in the pilot stage.

In terms of products, Deka's emphasis has been on further development of the *Internetfiliale 6.0* ("internet branch 6.0") as well as platform and portal solutions for institutional customers. One example in 2018 was the successful introduction of a web application for *Deka Treasury-Kompass*. This has further improved the savings banks' ability to record and analyse information. Deka Investment has also digitalised the entire process of creating and amending investment guidelines. The new system went live in the third quarter of 2018. Behind the user-friendly front end, downstream implementation algorithms automatically assign all standard requirements in the target system.



See also:
Segment
reporting,
pages 121 ff.

Organisational structure

The Deka Group's activities are organised into five business divisions. Deka's asset management activities are handled by the Asset Management Securities and Asset Management Real Estate business divisions. The Group's banking business is covered by the Capital Markets and Financing business divisions. The fifth business division, Asset Management Services, focuses on providing banking services for asset management. Despite the clear separation at Board level between banking business and asset management, the business divisions work closely both with one another and with the sales departments and corporate centres. They form the basis for the Deka Group's segment reporting under IFRS 8.

Asset Management Securities business division

The Asset Management Securities business division focuses on the active management of securities funds as well as on investment solutions and services for private investors and institutional customers. In addition, passive investment solutions are also offered.

The product range comprises

- actively managed mutual securities funds following fundamental and quantitative strategies in all major asset classes, along with fund savings plans based on these,
- passively managed index funds (exchange-traded funds – ETFs),
- products relating to fund-based asset management, funds of funds and fund-linked private and company pension products,
- special funds, advisory/management mandates and asset servicing solutions with an emphasis on master KVGs for institutional customers.

The product range is supplemented by bespoke and standardised securities services, for which the division works closely with the Asset Management Services business division.

Products and solutions are marketed under the Deka Investments, Private Banking and Deka Institutionell brands.

The division's strategic objectives remain to expand its market position in retail activities and to achieve profitable growth in institutional business.

Asset Management Real Estate business division

The Asset Management Real Estate business division offers real estate investment products for personal and institutional investors. It also offers credit funds and is an important partner for the savings banks in commercial property investment. The division focuses on the office, retail, hotel and logistics segments in Europe as well as selected locations in North and South America and the Asia-Pacific region.

Its services comprise the purchase, sale and management of real estate and all other real estate services, as well as the growth-oriented development of marketable commercial properties in liquid markets, and active portfolio and risk management.

Products offered by the division include open-ended real estate mutual funds as well as special (i.e. private) funds with either an open-ended or closed-ended structure, single-investor real estate funds, real estate funds of funds, club deals and credit funds that invest in real estate, infrastructure or transport financing. As part of the *Deka Immobilien-Kompass* initiative, the savings banks and other institutional investors are also offered an extensive modular service package aimed at real estate fund investment.

The division has set itself the target of expanding its market position in both retail and institutional business while maintaining strict compliance with quality and stability commitments.

Asset Management Services business division

The Asset Management Services business division provides banking services for asset management. The services range from supporting the sales departments with digital multichannel management to managing custody accounts for customers and providing custodial services for investment funds.

The Depository subdivision provides a full range of depository services, from the regulatory control function under the German Investment Code (*Kapitalanlagegesetzbuch* – KAGB) to securities settlement and reporting, both for Deka Group funds and for investment management firms outside the Group. Depository functions are also offered to institutional end investors. Asset Management Services works closely with the Capital Markets business division on services such as commission business, collateral management and securities lending.

The Digital Multichannel Management subdivision develops and implements digital solutions for securities business in the “internet branch” of the savings banks, in line with the savings banks’ multichannel strategy. In the retail segment, it also takes legal responsibility for the management of DekaBank custody accounts. A multi-platform online securities offering, including stock exchange and securities information tools, is made available to the savings banks, using DekaNet as a centralised information and sales platform. DekaNet also offers the opportunity to achieve greater process efficiency through automation solutions. Its services are supplemented with those provided by S Broker, whose solutions likewise allow the savings banks to realise multichannel sales. *S ComfortDepot* is a particularly popular solution for savings banks that want S Broker to take legal charge of their retail customer custody accounts (*Depot B*). With *DepotPlus* and *DirektDepot*, S Broker also provides the savings banks with an offering for online-oriented execution-only customers and trading-oriented clients. The “bevestor” digital development platform produces innovative solutions for online securities business.

The division has set itself the objective of continuing to develop the digital channel into a persuasive offering for online securities investment, trading solutions and digital asset management, so as to make an important contribution to growth in the retail customer business. The depository business also aims to be clearly positioned in the market and responsive to the rising trend in mutual funds, both among Deka Group investment managers and via third-party mandates.

Capital Markets business division

The Capital Markets business division is the central product, solution and infrastructure provider in the Deka Group’s customer-driven capital market business, and also acts as a service provider and driver of innovation in this area. As such, the division provides the link between customers and the capital markets. The Capital Markets business division offers investment solutions to both retail and institutional customers and helps customers to put their asset management decisions into practice.

With its tailored range of services relating to securities repurchase transactions, securities lending and foreign exchange trading, the business division also acts as the central securities and collateral platform for the savings bank association. The division thus enables customers to carry out transactions in all asset classes. It serves as a centre of competence for trading and structuring capital market products as well as for DekaBank’s issuance business. It also offers clearing services to institutional customers, thus helping them to fulfil regulatory requirements efficiently.

The activities of the Capital Markets business division are combined in three subdivisions:

- The Collateral Trading & Currency unit brings together securities lending products, securities repurchase transactions and customer-oriented currency trading.

- The Trading & Structuring unit is the Deka Group's centre of competence for trading and structuring capital market products (cash instruments, bonds and shares), for derivatives in all asset classes and issues of capital market products (debt securities and certificates). The strategic investments comprise the securities investments of Deka Group that do not form part of the liquidity reserve.
- The Commission Business unit executes trades in securities and exchange-traded derivatives in its own name on behalf of third parties.

The division aims to offer strategically significant functions (including access to capital markets and (central) counterparties) to savings banks and other institutional customers as a solution and infrastructure provider while making use of synergies and economies of scale. It responds to regulatory requirements by optimising the business portfolio on an ongoing basis and by efficiently managing regulatory capital requirements.

Financing business division

The activities of the Financing business division are carried out within two subdivisions.

The Specialised Financing subdivision concentrates on aircraft and ship financing (transport financing), on energy, grid, utilities and public infrastructure projects (infrastructure financing), on financing covered by export credit agencies, and on financing the public sector. It also has a leading position in the funding of German savings banks across all maturity ranges. Loans that were made before the credit risk strategy was revised in 2010 are combined in a legacy portfolio that does not conform to the current strategy. Legacy business continues to be reduced in a manner that safeguards assets.

The Real Estate Financing subdivision provides lending for commercial real estate. Lending is focused on marketable properties in the office, retail, hotel and logistics segments in liquid markets in Europe and North America.

Lending is taken onto our own statement of financial position via the banking book, as well as being packaged as an investment product for other savings banks and banks or institutional investors via club deals or syndications. Priority is given to placements within the *Sparkassen-Finanzgruppe*.

Due to considerations relating to balance sheet structure, the division is seeking to expand new business in the defined core segments and asset classes. It also aims to cement its position as a quality leader in liquid markets and as a sought-after financing partner for the most important international real estate investors. DekaBank continues to act in its role as a refinancing partner for the savings banks.

Sales

Savings Banks Sales & Marketing

Savings Banks Sales & Marketing uses a multichannel approach to focus on comprehensive sales support for the savings banks in their business with retail and commercial customers.

There is a clear division of tasks in market cultivation: The savings banks have sole responsibility for directly contacting, advising and serving retail customers, while the Deka Group provides the products and services they need to do so. Deka therefore also aims its marketing activities directly at end customers so as to nurture demand for the savings banks' services. Sales Management, Marketing and Private Banking systematically analyses the needs of customers and savings banks as well as competitor and market developments. It uses its findings to develop forward-looking sales and marketing measures to support the savings banks. The Product and Market Management unit looks after all matters in relation to the funds, certificates and wealth management solutions on offer and in relation to private and occupational pension products, throughout the entire product life cycle.

To ensure nationwide support, Sales is divided into six sales regions in Germany. Sales directors maintain regular dialogue on markets and customers with the savings banks and associations. Deka also provides the savings banks with sales associates and other specialists as the topic or occasion requires to assist at local level with marketing and sales activities and offer training and coaching.

Institutional Customer Sales

The Institutional Customer Sales unit supports the savings banks with proprietary business and serves institutional investors, including foreign investors in some cases. Customer advisers adopt a comprehensive approach that covers all products and services offered by the Deka Group across all business divisions. The unit acts as a solutions provider for its customers, bringing together the service range of all business divisions under one roof. The *Deka Institutionell* brand puts customers and their needs at its heart in keeping with the customer-centric orientation of DekaPro.

In the savings bank sector, the Institutional Customer Sales team is available to savings banks and other banks as a management partner and adviser, and develops immediately viable solutions for proprietary business (*Depot A*) and overall bank management. This includes methods and applications for interest rate book management and asset allocation. The solutions are built on comprehensive analyses of the earnings and risk situation.

A further focus is the business with pension funds, insurance companies, corporates, public bodies, non-profit organisations, family offices and international investors.

Corporate Centres

As a resource manager for the Deka Group, the Treasury corporate centre has a key role in ensuring that the structure of the balance sheet and income statement are managed in line with the business model. As such, Treasury manages the Group's liquidity reserves, maintaining a clear focus on liquidity. It also assists the Board of Management with the management of guarantee risks from DekaBank funds and fund-related products, manages market price risks in the banking book and credit risks in its own banking book, manages group liquidity and Deka Group refinancing across all maturities, and is responsible for asset-liability management, including equity instruments. By setting transfer prices for the whole Group, Treasury helps to ensure that the balance sheet is evenly structured and in line with strategy, and that transactions are managed and calculated on a source-specific basis. Treasury's services help the business divisions achieve their targets.

Alongside Treasury, other corporate centres support Sales and the business divisions. As of the reporting date, these were Compliance, Finance, Business Services, IT, the Credit Risk Office, Human Resources & Organisation, Legal, Internal Audit, Risk Control, Corporate Development, the Corporate Office & Communications and Risk Control Capital Market Funds.

Major companies and locations

The Deka Group's business is managed from the head office in Frankfurt/Main. The major investment management companies are also located there. WestInvest Gesellschaft für Investmentfonds mbH has its headquarters in Düsseldorf, while S Broker is based in Wiesbaden and S-Pensionsmanagement GmbH (DekaBank shareholding: 50%) in Cologne. The Deka Group's most important international office is in Luxembourg.

Deka Investment GmbH focuses on the fundamental and quantitative management of public mutual funds, special funds, ETFs and asset servicing. From 1 April 2018, the equity and bond funds managed by Deka Vermögensmanagement GmbH (formerly Landesbank Berlin Investment GmbH) were therefore transferred to Deka Investment GmbH.

Markets and influencing factors

In securities-related asset management, the economy, money market and capital market environment, the sales environment for the *Sparkassen-Finanzgruppe*, customer-driven trends and product quality all strongly influence business development and profit performance. These factors have an impact on sales to retail and institutional investors as well as on the performance of portfolios. In addition to this, real estate asset management is largely influenced by the situation and developments in commercial property, investment and letting markets.

Developments in the money and capital markets are also highly relevant to the Capital Markets and Financing business divisions. For example, customer demand for liquidity partly depends on the volume of liquidity made available by the European Central Bank (ECB). In addition, the situation in the market for fixed-income securities impacts on the issuing activities of the Capital Markets business division. Lending business is affected to some extent by economic trends in the sectors financed and by market interest rate developments.



Changes to regulatory requirements are of key significance for all business divisions and corporate centres. An overview of current economic conditions is provided in the economic report.

See also:
Economic
report:
pages 31 ff.

The Deka Group's business divisions have a strong position in their respective markets. With fund assets (according to the BVI, the German Investment Funds Association, as at 31 December 2018) of €122.2bn and a market share of 14.0%, Deka is Germany's fourth-largest provider of mutual securities funds. In terms of mutual real estate funds, with fund assets (according to the BVI, as at 31 December 2018) of €30.9bn and a market share of 31.5%, it occupies second place in Germany.

With issue volume once again rising significantly during the reporting year, the Deka Group achieved a market share of 18.3% in the primary market for investment certificates at the end of the third quarter of 2018 and was thus ranked second in Germany. At the same time, Deka has established itself as the market leader in reverse convertible bonds and is the second-largest provider of express certificate structures.

Alongside its own issues, DekaBank is also a significant solutions provider and adviser on issues for customers. In the savings bank sector, DekaBank is market leader in this regard in the segment for the financing of German federal states.

Risk and profit management at the Deka Group

The Deka Group aims to achieve a return on equity that is at least sufficient to secure corporate value, on the basis of an appropriate balance between risks and rewards over the long term. Financial and non-financial performance indicators are used in the Bank's management. Comprehensive reporting on the Deka Group's management indicates at an early stage whether strategic and operational measures are successful and whether the Deka Group risk/reward ratio is within the target range.

Financial performance indicators

The Deka Group's earnings, equity and risk management are essentially illustrated by three key financial indicators.

The economic result is the key in-house management indicator within the meaning of IFRS 8 and is based on the IFRS figures. The economic result includes the total of profit or loss before tax, plus or minus changes in the revaluation reserve (before tax) and the interest rate and currency-related valuation result from financial instruments recognised at amortised cost, which are not recognised in the income statement under IFRS but are relevant for assessing financial performance. The interest expense on Additional Tier 1 bonds, which is reported directly within equity (Additional Tier 1 capital), is also included in the economic result. Account is also taken of contingent future charges where the likelihood of occurrence is considered to be "possible" but for which a provision cannot be recorded under IFRS due to the lack of sufficient concrete evidence. The aim of the adjustments to the profit or loss before tax reported under IFRS is to reflect actual growth during the period under review.



See also:
Segment
reporting,
pages 121 ff.

The economic result has been used in external reporting at Group and business division level since 2007. For a reconciliation of the economic result to profit before tax under IFRS, please refer to the segment reporting in note [4], which shows the measurement and reporting differences in the "reconciliation" column. This ensures that it is possible to reconcile the figures presented with profit before tax under IFRS.



See also :
Changes in
regulatory
capital (own
funds):
pages 49 ff.

The Common Equity Tier 1 capital ratio is used as a key management indicator for assessing the adequacy of the Deka Group's own funds in line with regulatory requirements. It is therefore also of major importance for rating agencies' assessments of the Deka Group. The Common Equity Tier 1 capital ratio is defined as the ratio of Common Equity Tier 1 capital to risk-weighted assets (RWAs) for all relevant credit, market and operational risk positions plus the credit valuation adjustment (CVA) risk. Risk-weighted assets are managed in line with the Deka Group's strategy, the targeted balance sheet structure and the capital market environment. To supplement these, further regulatory key ratios are monitored, including the leverage ratio and liquidity coverage ratio (LCR).

The risk capacity for profit-affecting risks (ICAAP) represents the upper limit of acceptable (profit-affecting) risk. The utilisation of risk capacity is the ratio of total risk (risk level) to risk capacity. A key operational risk management parameter for economic risk-bearing capacity is risk appetite, which serves as the basis for allocating risk capital. The monthly risk-bearing capacity analysis involves comparing the Deka Group's risk appetite and allocated risk capital, which may be used to cover losses, with total risk determined across all risk types that have an impact on profit or loss. This makes it possible to establish whether total risk limits have been adhered to at Group and divisional level.

Non-financial performance indicators

Non-financial performance indicators relate to various aspects of the bank's operations and are an indication of the success of the products and services of the business divisions in the market and the efficiency of business processes.

"Net sales" is the key indicator of sales success in asset management and certificates. This figure essentially consists of the total direct sales volume of the Deka Group's mutual and special funds, fund-based asset management, funds of partner organisations, master funds and advisory/management mandates, ETFs and certificates. Net sales in investment fund business corresponds to gross sales less redemptions and maturities. Sales generated through proprietary investment activities are not counted. Redemptions and maturities are not taken into account for certificates, since in the certificates business the impact on earnings primarily occurs at the time of issue.

The "total customer assets" performance indicator includes the income-relevant volume of mutual and special fund products in the Securities (including ETFs) and Real Estate business divisions, direct investments in the funds of partner organisations, the portion of fund-based asset management activities attributable to partner organisation funds, third party funds and liquidity, and also advisory/management mandates. It also includes the volume attributable to certificates and externally managed master funds. Total customer assets have a significant impact on the level of net commission income. They are reported at Deka Group level by customer segment and product category.



See also:
Business
development
and profit
performance in
the Deka
Group:
pages 36 ff.

Trends in the two key non-financial performance indicators during the reporting year are described in the context of business development and profit performance at Deka Group level and at the level of the Asset Management Securities, Asset Management Real Estate and Capital Markets business divisions.