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 the second half of 2021 are subject to uncertainty.

Actual trends in the international money, capital and property markets and in the Deka Group may diverge significantly from our assumptions, which are partly based on expert estimates.

The Deka Group's risk position is explained in full 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 2021 financial year. Conversely, opportunities may result in expectations being exceeded. The Deka Group's opportunities are presented in the opportunities report in the Annual Report 2020; there have been no significant changes as of mid-year 2021.

The global impacts of the coronavirus pandemic on the economy still cannot be reliably predicted at the halfway point of 2021. There thus remains a level of uncertainty regarding future market developments. At least in the short term, there also remains a possibility of further setbacks in tackling the pandemic, even after the developments witnessed in the first half of 2021. These may be caused by delays in vaccinating the population or by the spread of mutated variants. It therefore cannot be ruled out that the earnings, risk and capital situation, along with the corresponding performance indicators, may turn out to be less favourable than presented in the forecast report.

Expected macroeconomic trends

In 2021, DekaBank expects the economic recovery to continue after the recession triggered by the COVID-19 pandemic in the spring of 2020. A noticeable upswing is emerging, helped along by the diminishing impact of the coronavirus this year. With the success of the vaccination campaign strengthening the economic outlook, DekaBank expects global gross domestic product to increase by 6.0% for 2021 as a whole. This rapid pace of expansion is due to the monetary and fiscal stimuli that are accelerating the economic catch-up process now that COVID restrictions are being eased. Looking ahead to the coming autumn and winter, however, we can expect renewed restrictions on public life in industrialised nations in the northern hemisphere, although these are likely to involve greater regional differences and be less severe than they were last winter. Based on this outlook, central banks are likely to remain generally supportive with favourable financing conditions. As far as fiscal policy is concerned, it is becoming apparent that, following the direct economic stimulus measures, the focus going forward will be on medium-term investments in the accelerated structural transformation towards greater digitalisation and sustainability.

Not least with the support of the new US administration under President Joe Biden, the world's major economies have renewed their focus on multilateral talks and agreements. We can expect to see more constructive interaction in the political arena. This does not diminish the prospect of intense competition between the three major economic blocs: America, Asia and Europe.

Marked increases in the price of oil and other commodities, supply bottlenecks for key intermediate goods and catch-up effects in private consumption are likely to continue to give consumer prices a major boost in the coming months. In Germany in particular, this situation is compounded by base effects in connection with the temporary reduction in VAT in the second half of 2020. These factors are likely to result in the inflation rate in Germany rising to well over 3% later in the year. Nevertheless, permanently higher levels of inflation are unlikely to be on the cards, as this would also require a stronger growth trend in wages. Although the economic recovery is coming hand-in-hand with falling unemployment rates, it will probably be some time before labour market conditions are as favourable as they were before the outbreak of the pandemic. In this respect, a major prerequisite for a broad-based increase in wages and prices is unlikely to be met in the foreseeable future.

In the months ahead, central banks in the world's major industrialised nations are likely to remain convinced that the current increase in inflation is of a temporary nature, meaning that there is no need to steer monetary policy in a different direction. At the same time, however, they are likely to start scaling back the special measures they took in response to the COVID-19 outbreak. This will involve a certain balancing act in central bank communications. On the one hand, the US Federal Reserve is likely to prepare the financial markets for the phasing-out of its asset purchases in the medium term, while on the other, it is unlikely to add any additional fuel to the speculation regarding key interest rate hikes at any point in the near future. It is a similar story for the ECB, which is likely to start gradually reducing its asset purchases under the Pandemic Emergency Purchase Programme (PEPP) later on in the year. In July 2021, it already announced changes to its monetary policy strategy, underscoring its intention to keep key interest rates low for some time to come. This is likely to help prevent the expiry of the PEPP from overly influencing market expectations regarding the general monetary policy stance.

Expected environment for asset management

The situation on the international capital markets is likely to be characterised by a significant economic recovery in the coming months, accompanied by only a slow normalisation of monetary policy. Concerns regarding excessive inflation are only expected to increase volatility for a short time, with long-term inflation expectations likely to remain generally entrenched. Against this backdrop, moderately steeper yield curves can be expected for low-risk government bonds, such as Bunds and US Treasuries. Given the positive economic outlook and continuing intense investment pressure, corporate bond spreads should chart a sideways trajectory in principle. The fundamentals continue to point to the relative appeal of shares, although the strong upward momentum in corporate profits is likely to taper off somewhat. As the prospect of less expansionary monetary policy draws closer, the second half of the year is likely to see a minor provisional correction in the upward stock market trend, which will otherwise remain intact with solid fundamental support.

Real estate asset management remains an appealing asset class. However, investment opportunities for real estate funds remain limited, meaning that restraint is still called for when attracting new inflows. Rising vacancy rates will continue to characterise the office property markets in the second half of the year, whereas top rents in prime locations are likely for the most part to make it through the crisis without major corrections. In terms of prices, Deka expects shopping centres and hotels to stabilise, office property prices to move sideways and prices for logistics real estate and neighbourhood retail centres to continue rising. In the ongoing low interest rate environment, yields will nevertheless remain at low levels for the foreseeable future, presenting fund management with particular challenges.

Expected environment for the banking business

The ECB will continue to buy securities on a large scale in the second half of the year, even if it is likely to gradually reduce the monthly volumes of its Pandemic Emergency Purchase Programme (PEPP). We also expect to see high demand for the two outstanding longer-term refinancing transactions in the TLTRO III series. Overall, this means that excess liquidity in the banking system should continue to rise. At the same time, and precisely because of the very attractive TLTRO III conditions, we do not expect the ECB, at least in the short term, to exempt a larger portion of excess reserves from negative interest rates in the context of the tiered deposit rate regime. As a result, money market rates are likely to move sideways at a low level, and the high levels of excess liquidity should support sustained strong demand, especially for short-term securities.

European companies have taken full advantage of the favourable financing conditions to increase their liquidity in recent quarters. With the expected strong economic recovery in the second half of the year, cash flows from operating activities should make more of a contribution to liquidity resources, meaning that issuing activity is likely to decline. If the ECB starts to scale down its asset purchases under the PEPP in the autumn, this will have only a minor impact on risk premiums for corporate bonds and covered bonds, as these have only played a minor role in this programme. Consequently, the continued high investment demand among international investors, as well as the continued ECB purchases as part of the Asset Purchase Programme (APP), should keep spreads at very low levels for some time to come.

The capital markets business will continue to be influenced by high market liquidity and low interest rates throughout the remainder of the year. Government and corporate debt levels are also high. In this market environment, the Deka Group expects only moderate changes for the Capital Markets business division. In the financing business, higher market liquidity, along with investment pressure among institutional investors, will translate into mounting competition, which may be reflected in the terms and conditions offered. The further development of the Financing business division will depend substantially on the duration of the COVID-19 pandemic.

Expected business development and profit performance

The Deka Group aims to further enhance its position as a customer-focused, innovative and sustainable *Wertpapierhaus* for the savings banks. The COVID-19 crisis has significantly accelerated trends that were already emerging before the pandemic: in the course of this decade, digitalisation and sustainability will result in radical and fundamental changes to the economy. It goes without saying that this also applies to DekaBank, which is why both these topics are cornerstones of our strategy.

In the forecast report that forms part of the Group management report for 2020, the economic result for 2021 as a whole was forecast at the level of the average for the last five years, namely around €400m, after the result for 2020 took a hit due to the COVID-19 crisis. The updated forecast for the interim report takes the adjusted estimates into account. Based on current market and business developments, the Deka Group expects to see an economic result at the end of 2021 that could be around 20% to 40% higher than the previous forecast.

Sales activities will continue to focus on investment fund business that maintains lasting value. In particular, this also includes regular securities saving. Total net sales are expected to continue to fall well short of the previous year's high level. However, net sales to retail customers are once again expected to be higher than in 2020. In institutional customer business, we expect net sales to be below the previous year's high figure. Total customer assets are still forecast to show moderate growth compared to year-end 2020.

The Asset Management Securities business division will once again focus on continuing to develop its range of high-quality products and services in the second half of 2021 in close coordination with the sales departments. It will concentrate particularly on the global impacts of the coronavirus pandemic and on expanding the range of products and services for sustainable investments in line with regulatory requirements and the Deka Group's strategy. An increase in net sales is still expected in the retail business. The focus will be on an investment fund business that maintains lasting value, products for regular saving and sustainability investments. The product mix will remain unchanged. In the institutional customer business, sales of special funds and, in particular, positive developments in institutional mutual funds and ETFs will boost sales performance and keep it at a high level.

Risks may arise from the further course of the coronavirus pandemic and its economic impact on the investment fund business. Once the pandemic has been overcome, political risks will become more significant again in the medium term. These developments could put pressure on the stock markets and dampen investors' risk appetite, which could trigger fund outflows and an absence of new investment. In addition, a pronounced stock market correction could negatively affect total customer assets.

The Asset Management Real Estate business division continues to pursue its aim of being the first-choice partner for savings banks and their customers when investing in commercial property. In open-ended real estate funds for retail customers, the aim is to build further on what is already an excellent market position without compromising on quality or stability. Using a combination of both existing and new products, the division aims to improve its market position in institutional business. Consistently taking sustainability criteria into account in property purchases and portfolio management will ensure that Deka remains attractive to sustainability-oriented investors, too. As the leading asset manager in the savings banks association, the Asset Management Real Estate business division is steadily expanding its existing product range in the area of sustainability. The business division still aims to increase both its net sales among retail and institutional customers and total customer assets. In order to achieve this objective, infrastructure funds of funds will be developed for the first time, to be offered initially in the institutional business.

There are risks to the performance of the Asset Management Real Estate business division from fierce competition in the transaction markets, which have been additionally impacted by the coronavirus pandemic. This makes transaction planning difficult. The measures that remain in place to tackle the pandemic are also creating more volatile business conditions in various parts of the economy and affecting tenants' income. The business division still aims to take a constructive approach to each individual solution and find viable long-term solutions that enable the funds to maintain profitable rental relationships. There are also risks from continued strong regulatory pressure and the further consideration of sustainability criteria, though the impacts cannot be fully predicted here.

For the second half of 2021, the Asset Management Services business division again aims to increase assets under custody in line with the targeted asset management growth. The Digital Multichannel Management subdivision will continue with its strategic direction, pushing ahead with the expansion and integration of the sales processes of physical branches and other channels for the securities products offered by the savings banks.

The Depositary subdivision will strive to further expand its depositary function through growth in the Deka Group investment companies' mutual funds and by obtaining third-party mandates, with a firm focus on developing a comprehensive asset servicing solution.

There are risks to Digital Multichannel Management from stagnating sales and from product development in the custody account business or delays in the enhancement of the multichannel sales offering. Rising expenses, for instance due to changes in the regulatory environment, could exacerbate these risks. Risks to future performance in the Depositary subdivision include rising pressure on margins for depositaries as well as market-induced outflows of funds, particularly due to the effects of the COVID-19 pandemic. In addition, a pronounced stock market correction could negatively affect assets under custody and thus income from the depositary business.

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 business in the second half of 2021. This is the business division's way of responding to both regulatory requirements and current market developments and offering product solutions and services to help savings banks meet their regulatory requirements. It will also be important to maintain the Deka Group's position as an infrastructure provider with international capital market access. In the certificates business, retail products will remain the focus.

Risks to the development of the Capital Markets business division arise particularly from negative capital market developments and recessionary fears due to exogenous shocks such as the COVID-19 pandemic or trade disputes, followed by low customer activity levels. Additional risks arise from regulatory intervention in the design of products and definition of terms and conditions and further increased market pressure on fees. Regulatory or adverse monetary policy escalations leading to additional capital backing or reporting obligations may also affect business performance.

For its business activities in the second half of 2021, the Financing business division will continue to concentrate on its defined and well-established core segments: specialised financing and real estate financing in liquid markets. The business division is pushing ahead with its stability-focused and risk-conscious strategy in a market environment that continues to be shaped by the COVID-19 crisis.

Risks to the Financing business division arise especially from the potential further repercussions of the COVID-19 crisis on the quality of loan exposures, especially in the particularly affected sectors of transport and real estate financing. DekaBank took extensive precautions against these risks in the reporting year by focusing on specialised and real estate financing and promptly reviewing the impact on credit quality at the level of individual exposures. At least in the short term, however, there remains a possibility of further setbacks caused by delays in overcoming the COVID-19 crisis. Further risks may arise from political crises, which could adversely affect the economic outlook for lending segments in which we operate. This could also 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 intended new business volume and expected returns cannot be achieved. Business performance may also be negatively affected by increasing competitive pressure for project and infrastructure financing due to institutional investors acting as direct lenders.

Expected financial and risk position

For the remaining months of the year, the Deka Group is anticipating a continued sound financial position. Balance sheet management is geared towards ensuring compliance with an appropriate leverage ratio well above the minimum ratio of 3%, as well as compliance with the requirements for RWA- and LRE-based MREL and with the subordinated MREL requirements.

The Deka Group expects to maintain an adequate capital and liquidity base in both the normative and economic perspective. It continues to aim for a Common Equity Tier 1 capital ratio above the strategic target of 13%.

In terms of risk-bearing capacity analysis, the expectation is that the utilisation of the risk appetite will remain at a non-critical level. With regard to risk development, however, increased uncertainty with regard to the further development of the market environment cannot be ruled out.

The Group's liquidity position is forecast to remain at a comfortable level. Likewise, all relevant ratios such as LCR and NSFR are expected to be comfortably adhered to.