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At a glance

As a securities service provider (*Wertpapierhaus*), DekaBank sees itself as a force driving innovation within the *Sparkassen-Finanzgruppe* (Savings Banks Association), of which it is a key part. 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.

The Deka Group achieved net sales of €13.6bn (H1 2020: €14.5bn) in the first half of 2021. The Group increased net sales in the retail customer segment by €4.1bn year-on-year to €11.0bn. Fund sales rose from €4.6bn to €7.7bn, with equity funds (€3.6bn), bond funds (€1.2bn) and real estate funds (€1.5bn) accounting for a particularly significant share of this figure in the reporting period. Sales of certificates to retail customers totalled €3.4bn (H1 2020: €2.3bn). Net sales to institutional customers came to €2.5bn as against €7.5bn in the first six months of 2020. The lower figure was due to a major master funds client changing investment management company. As a result, the institutional investment fund business accounted for net sales of €1.4bn (H1 2020: €6.1bn). Certificate sales to institutional customers in the reporting period came to €1.1bn (H1 2020: €1.4bn).

Net sales, coupled with positive performance and the integration of the total customer assets of IQAM Invest GmbH at the beginning of 2021, fuelled an increase in total customer assets to €368.3bn (year-end 2020 €339.2bn).

The COVID-19 pandemic affected global economic development in the first half of 2021. Nevertheless, the process of economic recovery that had already emerged after the recession induced by the pandemic last spring has generally continued in 2021. So far, the economy, business cycle and capital markets have not been hit as hard as originally expected.

Given the overall conditions, business development and profit performance can be considered very satisfactory. The economic result increased significantly compared to the same period of the previous year (€162.5m), rising by €180.5m to €342.9m.

Income increased to €928.3m in the first half of 2021 (H1 2020: €757.9m), driven to a significant degree by strong net commission income, much less of a need for risk provisions and high actuarial gains on pension provisions due to the prevailing market conditions. Net commission income remains the main component of income, accounting for 80%.

At €585.4m, expenses were 1.7% lower than in the first half of 2020 (€595.5m) despite the marked increase in the bank levy.

The cost/income ratio was 64.6% (H1 2020: 69.4%). Balance sheet-based return on equity (before tax) stood at 13.5% (H1 2020: 6.6%).

The Deka Group's financial position remains sound. DekaBank also has one of the best credit ratings among its peer group of German commercial banks.

At the mid-point of the year, the Common Equity Tier 1 capital ratio stood at 15.3% (year-end 2020: 14.2%). The risk-bearing capacity analysis showed an utilisation of risk appetite of 51.1% (year-end 2020: 70.5%).

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Deka Group profile and strategy

Together with its subsidiaries, DekaBank is the securities service provider (the *Wertpapierhaus*) for the savings banks. 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 within the securities business. 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.

Organisational structure

The Deka Group divides its business into five business divisions that bring together similar activities. 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 – provides banking services for asset management. The sales units Savings Banks Sales and Institutional Customer Sales serve as the interface with sales partners and customers. The corporate centres support the business divisions and sales departments throughout the value chain.

Management

DekaBank is managed collectively by the Board of Management. The Board of Management takes a holistic approach, always considering the entirety of the Deka Group and the strategic direction and risks.

The Board is divided into divisions, each under the responsibility of a designated member. This ensures a clear distribution of roles and core competencies in the Board of Management.

Torsten Knapmeyer started in his role as Chief Sales Officer on 1 April 2021. The Board of Management now consists of six members. The responsibilities are as follows:

- CEO: Dr. Georg Stocker
- Deputy CEO & Asset Management: Dr. Matthias Danne
- Risk (CRO): Birgit Dietl-Benzin
- Finance (CFO) & Operations (COO): Daniel Kapffer
- Sales: Torsten Knapmeyer
- Banking business: Martin K. Müller

Sustainable corporate governance

The more and more massive impact of climate change highlights the need for swift and decisive action to limit the negative implications of global warming for society at large, the environment and the economy. With its "Target vision 2025 – Guidelines on sustainability in savings banks" (*Zielbild 2025 – Leitfaden zur Nachhaltigkeit in Sparkassen*) produced in 2020, the German Savings Banks Association (DSGV) has laid the foundations that will allow the *Sparkassen-Finanzgruppe* to further systematically integrate the challenges associated with climate change and sustainable development into all areas of business activity. The particular significance of climate change is underlined by the "Commitment by German savings banks to climate-friendly and sustainable business practices" (*Selbstverpflichtung deutscher Sparkassen für klimafreundliches und nachhaltiges Wirtschaften*), which DekaBank was the first member of the *Sparkassen-Finanzgruppe* to sign at the end of 2020.

The regulatory environment of the EU Action Plan on Financing Sustainable Growth defines cornerstones for the design of sustainable investment products in the form of a taxonomy and expands transparency obligations, both for providers of sustainable investments and for the investment products themselves. The investor's preferences regarding the consideration of sustainability criteria have also been made a compulsory part of any consultation.

The Deka Group's positioning in terms of sustainability, which Deka has been building on continuously since 2009, is still rated very highly by sustainability rating agencies.

- MSCI ESG (2021): AA
- ISS ESG (2020): C+ Prime "Industry Leader"
- Sustainalytics (2021): 17.4 "Low risk"

In addition, DekaBank was awarded a rating of 55% in the second-highest "robust" category by the rating agency V.E (formerly Vigeo-Eiris) in 2021, ranking it 13th out of 97 in its peer group.

See also:
2020 Sustainability Report

In accordance with the statutory disclosure deadlines under the CSR Directive Implementation Act, the 2020 Sustainability Report, including the non-financial report, which does not form part of the Group management report, was published on the website by the relevant deadline in March 2021.

Positioning and role within the *Sparkassen-Finanzgruppe*

As the *Wertpapierhaus* of the savings banks, DekaBank sees itself as a force driving innovation within the *Sparkassen-Finanzgruppe*, of which it is a key part. The further development of the strategy is presented in detail in the Annual Report 2020.

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 the Deka Group, which is why both these topics are cornerstones of our strategy.

Digitalisation

Deka is aiming to be the *Wertpapierhaus* for the savings banks in the digital arena as well. This quest involves enabling savings banks to offer their customers competitive, digital customer journeys in the securities business, to implement innovative products and services and to use digital technologies to improve process quality and efficiency. One example at the customer interface is the S-Invest app, which has now been downloaded almost 750,000 times.

Policymakers have recognised the importance of digitalisation in the financial services sector and have established a framework for digital assets with the Electronic Securities Act (eWpG). By using these developments early on to expand the investment options available to customers and significantly streamline settlement processes, Deka has already set standards in the market.

Together with other market participants, Deka has created finledger, Germany's first blockchain-based platform for the processing of issued promissory note loans. finledger has already been successfully used to process several issues.

In addition, the Digital Collateral Protocol (DCP), a blockchain-based settlement system for securities, has been implemented with the potential to more than halve the external costs for international securities transactions. The DCP presents an opportunity to standardise and fundamentally change national and, most importantly, international transactions involving conventional securities. The DCP has already been in use for legally effective lending transactions since the end of last year.

Deka is making use of all key technologies in its efforts to digitalise its business processes: physical documents are being digitalised using optical character recognition (OCR), workflows are being automated using workflow/low code and robotics, and artificial intelligence is being used to process unstructured information. One example is Deka's move to digitalise real estate-related information and its further processing.

Sustainability

For the Deka Group, sustainability not only has an environmental component but an economic and social one, too. The Group is convinced that the necessary ecological transformation can only be achieved by working with people and not against them.

DekaBank is helping the *Sparkassen-Finanzgruppe* to get ready for the future, particularly by further expanding its range of sustainable capital market- and real estate-based investment products and sustainable financing solutions. It also provides an option for calculating and offsetting unavoidable greenhouse gas emissions from own business operations. With Deka Easy Access, for example, Deka offers a multi-level support service for savings banks and institutional customers. The treasury platform also allows customers to calculate their own carbon footprint and, in a second step, highlights options for reducing carbon emissions. A third step offers opportunities to offset the remaining emissions using climate protection certificates.

See also:
2020 Sustainability Repot

We are using our corporate governance activities at annual general meetings, where sustainability plays a central role, to support this process of transformation. For many of our customers, this commitment is also a key source of motivation to invest their assets with Deka.

Market position and awards

With fund assets (according to the BVI, the German Investment Funds Association, as at 31 May 2021) of €144.1bn and a market share of 12.0%, Deka is the fourth-largest provider of mutual securities funds in Germany. It is Germany's second-placed provider of mutual property funds with fund assets (according to the BVI, as at 31 May 2021) of €37.3bn and a market share of 30.8%. With an increase in the market volume for certificates in the first three months of 2021, the Deka Group confirmed its position as market leader in the overall market for derivative securities in Germany, where it has a market share of 24.0% (end of March 2021).

Since the beginning of the year Deka won numerous awards. At the €uro FundAwards 2021 once again Deka was successful across all asset classes. This year Deka received 39 awards for 21 funds and two ETFs. At the Capital-Fonds-Kompass 2021 awards ceremony, Deka's consistently good performance was confirmed yet again. The online awards ceremony organised by the business magazine I saw Deka build on its good ratings from the previous year and improve its overall ranking by two positions to fifth place out of 100 companies. Among those providers with at least 31 funds distributed in Germany (universalists), Deka made it into the top three. The German Institute for Service Quality (DISQ) crowned the Deka-Nachhaltigkeit Impact fund "Financial Product of the Year" and awarded it a "very good/good" rating. In the 2021 Scope rating, the excellent "AA" and "AMR" rating awarded to Deka's real estate funds in the pre-COVID years was confirmed. Deka-Immobilien Global and WestInvest InterSelect received particularly good ratings.

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Economic environment

Macroeconomic conditions

The COVID-19 pandemic continued to impact economic development across the globe in the reporting period. In general, there was a continuation of the economic recovery process following the pandemic-induced recession in the spring of 2020. This was largely due to government support measures in the form of aid and economic stimulus programmes, as well as to the central banks with their zero interest rate policy and asset purchase programmes. This expansionary impetus was, however, noticeably reduced at various points in the first half of 2021 by regional lockdown measures of varying severity in response to another wave of the pandemic. In the eurozone, gross domestic product actually declined in the first quarter of the year before the lockdown measures were lifted at the beginning of the summer, prompting a return to macroeconomic expansion, especially in the service sectors. The progress made in vaccinating the population against the coronavirus has contributed to the brighter economic outlook.

After the economic implications of the COVID-19 pandemic had put a noticeable damper on inflation in 2020, there was an unexpectedly strong surge in prices in the first few months of this year. The reasons for this trend were manifold and partly predictable, for example the end of the temporary VAT reduction in Germany. Moreover, in the eurozone, an unusually large adjustment was made to the basket of goods used to measure consumer price indices to bring it in line with household spending behaviour, which has been altered by the lockdown measures. This purely statistical effect contributed to higher inflation rates, especially at the beginning of the year, but does not reflect a change in the overall inflation trend. Oil prices have also staged a very rapid recovery since the end of last year, which, combined with base effects, fuelled a strong increase in the price of energy goods. Other reasons for the increase in prices are related to the special circumstances of an expanding economy in the context of the pandemic. As inventories of raw materials and intermediate products were reduced significantly during the lockdown periods, the subsequent, unexpectedly strong recovery in global industry came hand in hand with supply bottlenecks. These have had a very significant impact on raw material, producer and import prices. So far, however, these cost increases have only been passed on to consumers to a limited extent.

The world's major central banks have in recent months stressed their conviction that the current acceleration in inflation can be traced back mainly to temporary causes. They expect inflation to ease again in the medium term and are therefore prepared to accept higher inflation rates for the time being. Their communications continue to emphasise their intention to support the post-pandemic economic recovery. To ensure sufficiently favourable financing conditions for the real economy, the ECB stepped up the pace of its asset purchases under the Pandemic Emergency Purchase Programme (PEPP) in March, confirming this decision again in June. Initially, it was primarily concerned with protecting the eurozone against rising yields on US government bonds. Later, its main aim was to counteract the risk that a rapid correction of market expectations regarding economic growth, inflation and future monetary policy would lead to an abrupt tightening of financial conditions.

The US central bank, the Fed, also continued apace with its asset purchases in the first half of the year, as it considered particularly the recovery on the labour market to be insufficient. Nonetheless, both central banks are likely to reduce their monetary stimulus in the medium term. At the ECB, debate intensified towards the middle of the year on the conditions for scaling back PEPP asset purchases. At the Fed's June meeting, the majority of central bankers indicated that they expected to see initial rate hikes in 2023.

Economic environment for asset management

The surprisingly marked increase in inflation and the accompanying uncertainty regarding a possible imminent change in monetary policy lifted yields on long-dated government bonds significantly at times. Ultimately, however, central banks succeeded in limiting this rise in yields by announcing an extremely moderate response to increasing inflationary pressures. At the same time, financial market players revised their growth expectations significantly upwards in view of rapidly advancing vaccination campaigns and the prospect of monetary and fiscal stimulus policies remaining in place for some time to come. This scenario led to a very favourable environment for high-risk securities. Expectations of rising corporate profits, with interest rates remaining fundamentally low, provided a boost to the stock markets in particular. Stock indices across the globe soared to levels well in excess of those seen prior to the outbreak of the COVID-19 pandemic, often touching new historic highs in the process.

Corporate bonds remained in high demand despite a return to somewhat higher yields on government bonds. As concerns about a rising number of insolvencies increasingly receded, corporate bond spreads narrowed further. Nevertheless, lower-risk securities often suffered slight price losses due to higher swap rates, while high-yield securities fared better with the rise in longer-term interest rates. Higher-risk government bonds also showed stable to slightly declining spreads. With interest rates remaining low, investors have so far shown little concern about the increase in government debt as a result of the pandemic. Fiscal risks are also being increasingly shared among the EU member states, with many market participants predicting that this practice will not be abandoned completely even when the consequences of the COVID-19 pandemic have been overcome.

Real estate funds continued to offer an attractive risk/reward ratio in the low interest rate environment. Given high real estate prices and limited availability of suitable properties, however, the investment opportunities open to real estate funds remained limited. This restricted their ability to attract new investor funds, particularly given that it was not possible to generate positive margins from liquidity investments. The effects of the COVID-19 pandemic continued to put pressure on the real estate markets in the first half of 2021. While low vacancy rates enabled markets for office space to weather the crisis relatively well, with only isolated rent reductions, retail and hotels took a greater hit from the impacts of the pandemic, such as temporary shop closures, the cancellation of large events and travel restrictions. The logistics market, by contrast, continued to benefit from the growing trend towards online shopping and increased demand for space, which was needed to safeguard supply chains. On the investment market, turnover in the first half of 2021 was up on the first half of 2020 due to a strong second quarter The global transaction volume in the period from January to June 2021 was significantly above the prior-year figure.

During the first three months of 2021, the financial assets of private households in Germany rose by €192bn to €7,143bn, mainly due to valuation gains on shares and units in investment funds. Compared to 31 December 2020, the share of these investments in the total financial assets of private households increased slightly to 22%. As in the previous year, higher liquid investments such as cash and demand deposits contributed to the increase in financial assets.

The market performance seen in 2021 was also reflected in the investment statistics of the German Investment Funds Association BVI. Net assets in open-ended mutual funds amounted to €1,320.8bn as at 31 May 2021 (year-end 2020: €1,179.9bn), while the net assets of open-ended special funds stood at €2,056.6bn (year-end 2020: €1,998.0bn). At €46.4bn, net inflows into open-ended mutual funds significantly exceeded the previous year's figure (€–2.3bn). Equity funds, mixed funds and real estate funds made a particular contribution to this increase. At €51.9bn, the sales figure for open-ended special funds for institutional investors was significantly up on the comparative figure for the previous year (€29.1bn).

Economic environment for the banking business

Due to the ECB's extensive asset purchases and the heavy use made of its long-term tenders, excess liquidity in the banking system increased further in the reporting period. The resulting downward pressure on short-term interest rates also continued to grow as a result. Nevertheless, longer-term money market rates in particular moved slightly upwards. This was largely because, at the start of the year, many market participants were still convinced that a further cut in the ECB's deposit rate was on the cards. At the mid-year point, by contrast, they expected key interest rates to remain unchanged for the foreseeable future.

In the credit markets, rising government bond yields had only a minor impact in the first few months of 2021. Financial institutions reaped very considerable benefits from the generous support provided by the ECB, which had a significant impact on new covered bond issues in particular. As was already the case last year, only a very small number of covered bonds were placed on the freely tradable market, noticeably reducing risk premiums on outstanding covered bonds. This has also, however, resulted in a further fall in the liquidity of covered bonds on the market. Companies, on the other hand, took advantage of the favourable financing conditions and, as in the previous year, often borrowed what were, in some cases, very substantial amounts on the market. They met with huge demand from international investors. As the ECB also continued with its asset purchases at an undiminished pace, risk premiums for corporate bonds fell continuously, with only minor fluctuations. The high demand among investors in the market for government-related securities also came to the fore. Similarly to the EU's new issues as part of the SURE programme (Support to Mitigate Unemployment Risks in an Emergency), the first few significantly larger bonds for the recovery fund were also heavily subscribed and were placed on the market easily with very low risk premiums.

The pandemic response also triggered extensive new issues by corporates, as well as by national and municipal governments, in the first half of 2021. The repo/lending business remained influenced by excess liquidity in the banking system in the first half of 2021. The volume in the Commission Business unit fell year-on-year and the margins that could be achieved in the market remained under pressure. Sales of structured issues and the third-party issues business rose significantly in the first six months of the year.

The COVID-19 crisis continued to dominate market activity in the financing business in the first half of 2021. Due to the market environment in the context of the pandemic, real estate financing remained characterised by subdued investment volumes and a relatively small number of completed purchases and sales. The first few signs that the situation might be easing started to appear in the hotel and retail portfolio segments, which have been hit particularly hard by the pandemic. The impact of the COVID-19 crisis was also felt in transport financing. In addition to significantly lower new business compared with the same period of the previous year, the volume of existing business was among others reduced by asset disposals., where the volume of both existing and new business declined. Compared to the previous year, terms and conditions remained stable or improved in some regions due to a lack of liquidity.

Regulatory environment

The regulatory environment changed only slightly compared with the situation presented in the 2020 Group management report. Changes to regulations, both those already initiated and those in the pipeline, influenced the business model and profitability of the Deka Group during the first half of the 2021 financial year. Higher capital requirements for banks could emerge from supervisory interpretations of existing legal standards and from the results of the annual Supervisory Review and Evaluation Process (SREP), for example in the context of the supervisory review of the internal models under Pillar 1 of the Basel capital framework.

The implementation of the issues presented is associated with considerable costs and resource commitments. These are the key regulatory issues for the Deka Group.

Regulatory topics

Supervisory authorities and regulators enacted numerous, in some cases temporary, relief measures in light of the coronavirus crisis. Some of the relief measures presented in the 2020 Group management report and applied by DekaBank have now expired. The following relief measures, which were already in force in 2020, remained in use in 2021:

- The Federal Financial Supervisory Authority (BaFin) reduced the countercyclical capital buffer to 0% back in 2020. The increase to 0.25% that had been planned for July 2020 therefore did not apply.
- In the course of 2020, the ECB brought forward a change originally planned for the end of the year to allow capital other than Common Equity Tier 1 (CET 1) capital to contribute to meeting P2R (the Pillar 2 Requirement). Banks can make long-term use of this change provided they have sufficient Additional Tier 1 (AT1) capital and Tier 2 (T2) capital.

DekaBank did not apply the following relief measures:

- In 2020, the ECB permitted the institutions under its supervision to temporarily operate below the capital level defined by the capital conservation buffer, the P2G (Pillar 2 Guidance) and the Liquidity Coverage Ratio (LCR). DekaBank has not adjusted its relevant internal thresholds for capital and liquidity management.
- The Capital Requirements Regulation (CRR) has been amended in European law (CRR quick fix). This allows banks to temporarily adjust their regulatory capital for the effects of increased risk provisioning. Other relief measures relate to the measurement of unrealised losses on banks' holdings of public debt and to the capital deduction for capitalised software. The measures in the CRR quick fix still do not offer significant relief for DekaBank.
- The ECB announced in June 2021 that central bank deposits could be excluded from the leverage ratio exposure. The relief applies for a limited period until 31 March 2022.

In the EU, the reform of Capital Requirements Regulation II (CRR II) and Capital Requirements Directive V (CRD V) was published in June 2019. The reform of the CRR primarily implemented the proposals put forward by the Basel Committee on Banking Supervision (BCBS) on the leverage ratio (LR), the net stable funding ratio (NSFR), the standardised approach for counterparty credit risk exposure (SA-CCR), the revised requirements that apply to large exposures, the trading book and the treatment of credit risks resulting from guarantee funds and Riester products. The above regulations have been applied by DekaBank since 28 June 2021.

In October 2020, the European Banking Authority (EBA) issued an opinion on the treatment of capital instruments that are no longer eligible as own funds from 2022 onwards ("legacy instruments"). The opinion holds that legacy instruments have the potential to infect other (non-legacy) capital instruments to the extent of disqualifying them. This may be the case if the legacy instruments have certain detrimental features (e.g. equal ranking with the non-legacy capital instrument). At DekaBank, this could apply to atypical silent capital contributions, which might infect the subscribed capital (as a CET1 instrument) including the capital reserve. DekaBank has taken measures to allow it to avoid infection at the beginning of 2022.

The Fundamental Review of the Trading Book (FRTB) contains amended provisions on the calculation of market risk. The European Commission adopted the final Delegated Regulation in mid-December 2019 and thereby partially integrated the changes under the 2019 Basel standard into CRR II. Further implementation details will be published via EBA regulatory technical standards and guidelines. The reporting obligation for the FRTB standardised approach begins at EU level as of 30 September 2021. The new regulations on the definition of the trading book, as well as the start of capital requirements at EU level, are expected with CRR III.

The tightening of the large exposure regime enacted with the revision of the European capital and liquidity rules has been applied from 28 June 2021. The large exposure limit is no longer set according to the level of total own funds but instead according to the level of Tier 1 capital. The calculation of the exposure values and the provisions governing the application of credit risk mitigation techniques have also been revised. In applying credit risk mitigation techniques, the collateral provider or issuer of the financial collateral is required to take the collateralised exposure into account in their large exposure limit when collateral is accepted (collateral substitution). The scope of application of collateral substitution is to be set out in greater detail in an interpretation decision of the European Commission. Depending on the decision made, this could have an impact on repo lending business activities.

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 had planned initial application on 1 January 2022 but has now postponed this until 1 January 2023. More specifically, the gradual introduction of an output floor is planned. This will stand at 50% upon introduction at the beginning of 2023 and increase to its final level of 72.5% in 2028. The output floor will limit the benefit of internal models as compared to the standardised approach. Deka currently uses the IRB approach for the majority of its lending. It will therefore be particularly affected by the new output floor rules, which may lead to a significant rise in RWA going forward. In addition, new rules have been agreed on calculating RWA for CVA risk and operational risk, which are also to be applied starting in 2023. These may also increase RWA. Draft legislation for implementation at EU level is not yet available.

The entry into force of the Single Resolution Mechanism Regulation (SRMR II) in December 2020 changed the minimum requirements on holding own funds and eligible liabilities for the purposes of loss absorption and recapitalisation in the event the Bank is wound up (Minimum Requirement for Eligible Liabilities – MREL). The balance sheet-based approach previously used switched to an RWA- and leverage exposure-based calculation method in the middle of 2021. The resolution authority has notified the Deka Group of the requirements that will apply as of 1 January 2022 based on the new calculation method.

The European Banking Authority (EBA) has conducted a stress test in 2021. This covered all risk types, as it did last time in 2018. The results were published on 30 July 2021. DekaBank was not among the banks taking part in the EBA stress test.

As a bank subject to ECB supervision, however, it has been subjected to a stress test by the ECB in 2021, which was carried out in accordance with EBA methodology. The results of the ECB stress test feed into the calculation of the Supervisory Review and Evaluation Process (SREP) ratios. DekaBank passed the stress test with a satisfactory result; in the adverse stress scenario, DekaBank remains well above the SREP minimum requirements for the Common Equity Tier 1 capital ratio.

In the addendum to the ECB guidance to banks on non-performing loans published in March 2018, the ECB details the calculation of the prudential provisioning for loans classified as non-performing exposures (NPEs) after 1 April 2018. As part of the annual supervisory dialogue, the ECB examines any divergences between supervisory expectations and the risk provisions actually recognised by the Bank. In the event of a shortfall in cover, the banks are required either to make a deduction from their Common Equity Tier 1 capital on their own initiative or to provide the supervisory authorities with adequate justification of their divergence from the prudential provisioning expectations. If the ECB does not accept the justification, this could result in higher capital requirements. The amendment to the CRR dated 25 April 2019 concerning the minimum loss coverage for non-performing exposures provides for a mandatory deduction from Common Equity Tier 1 capital if a bank's actual provisioning falls short of the minimum supervisory requirement. In August 2019, the ECB then revised the Addendum to the ECB Guidance to banks on non-performing loans in respect of the minimum coverage ratios and timescales for achieving these minimum coverage ratios. It also limited the scope to NPEs not regulated by the CRR. With the amendments to the CRR (CRR quick fix) that entered into force on 27 June 2020 to mitigate the impact of the COVID-19 pandemic on banks, preferential treatment for publicly guaranteed NPEs is permitted in terms of the minimum loss coverage, which does not need to be reached until the eighth year after classification as an NPE.

The 2018 EU Action Plan on Financing Sustainable Growth aims to reorient all investments in the EU towards six areas for action based on the taxonomy developed from the Action Plan: climate change mitigation; climate change adaptation; the sustainable use and protection of water and marine resources; the transition to a circular economy, waste prevention and recycling; pollution prevention and control; the protection and restoration of biodiversity and ecosystems. As part of the operationalisation of the Action Plan, the financial industry has been placed at the centre of the formal framework in an initial implementation step. These expectations have been addressed in various legal standards, with which the Deka Group engaged intensively during the reporting period.

Reorienting capital of private and institutional investors towards sustainable investment, as the goal of the EU Action Plan on Financing Sustainable Growth, can only be achieved if these investors are offered attractive investment products that meet high sustainability standards. This is particularly the case where private investors are concerned. In future, banks will be required, during the consultation, to actively ask these investors about their preferences in relation to sustainable investment. With this in mind, the Deka Group once again significantly expanded its range of sustainable investment opportunities in the reporting year, making a major contribution to the large selection of funds, ETFs and other investments that advisers in the savings banks offer their customers. Since 2020, companies with a substantial involvement in coal extraction and coal-based electricity generation have been excluded not only from the sustainability funds but from all actively managed mutual funds and proprietary investment activities.

See also: Disclosures according to SFDR / Disclosure Regulation

The Level 1 regulatory requirements set out in the Sustainable Finance Disclosure Regulation (SFDR), which is particularly relevant from an investor perspective, were implemented successfully and by the applicable deadline in the first quarter of 2021. A statement about how the adverse impacts of investment decisions on sustainability factors (“principal adverse impacts”) are taken into consideration was issued for all companies and published in German on the website, as well as in other places. The regulation makes a distinction between legal entity-related and product-related disclosure obligations. Further requirements of the legal standard based on Level 2 are to be implemented by mid-2022.

From a sustainability perspective, the following regulatory reporting initiatives were relevant for DekaBank in the first half of 2021: the future requirement to disclose the taxonomy alignment of new and existing business (according to EBA-proposal to EU Taxonomy Article 8), the associated phased publication of ESG risks, including the disclosure of the Green Asset Ratio (based on EBA's technical implementation status of Article 449a CRR II regarding the inclusion of sustainability aspects in Pillar 3 disclosures), and the fundamental revision of sustainability reporting (Corporate Sustainability Reporting Directive, CSRD).

With regard to the extended disclosure requirements (pursuant to Article 8 of the EU Taxonomy, the EBA standard in accordance with Article 449a CRR II and the CSRD), the regulator must implement changes in both non-financial and financial reporting for the years from 2021 to 2023. As a result, the regulator expects to see closer links between financial and non-financial content in the management report. Individual aspects of the implementation of Article 8 of the EU Taxonomy are already to be taken into account for the purposes of the 2021 Sustainability Report. Provisions also have to be made to comply with the requirements of the EBA standard pursuant to Article 449a CRR II for the 2022 reporting year and those of the CSRD for the 2023 reporting year.

In addition, the Bank is preparing for the ECB climate stress test that has been announced for 2022. This is planned for the first half of 2022 and aims to examine the extent to which SSM (Single Supervisory Mechanism) banks are affected by climate risks. The results of the stress test are to be taken into account in bank SREP processes.

Product- and service-related regulatory proposals

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. The European institutions are working and coordinating with each other on the exact shape of this and the future timetable.

Business development and profit performance in the Deka Group

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

The COVID-19 pandemic affected global economic development in the first half of 2021. Nevertheless, the process of economic recovery that had already emerged after the recession induced by the pandemic last spring has generally continued in 2021. So far, the economy, business cycle and capital markets have not been hit as hard as originally expected.

Given the overall conditions, business development and profit performance can be considered very satisfactory. The economic result increased significantly compared to the same period of the previous year (€162.5m), rising by €180.5m to €342.9m.

Income increased to €928.3m in the first half of 2021 (H1 2020: €757.9m), driven to a significant degree by strong net commission income, much less of a need for risk provisions and high actuarial gains on pension provisions due to the prevailing market conditions. Net commission income remains the main component of income, accounting for 80%.

At €585.4m, expenses were 1.7% lower than in the first half of 2020 (€595.5m) despite the marked increase in the bank levy.

In the first half of 2021, the Deka Group achieved net sales of €13.6bn (H1 2020: €14.5bn). The Group increased net sales in the retail customer segment by €4.1bn year-on-year to €11.0bn. Fund sales rose from €4.6bn to €7.7bn, with equity funds (€3.6bn), bond funds (€1.2bn) and real estate funds (€1.5bn) accounting for a particularly significant share of this figure in the reporting period. Sales of certificates to retail customers totalled €3.4bn (H1 2020: €2.3bn). Net sales to institutional customers came to €2.5bn as against €7.5bn in the first six months of 2020. The lower figure was due to a major master funds client changing investment management company. As a result, the institutional investment fund business accounted for net sales of €1.4bn (H1 2020: €6.1bn). Certificate sales to institutional customers in the reporting period came to €1.1bn (H1 2020: €1.4bn).

In net terms, investors signed up to around 591 thousand new Deka investment savings plans in the first half of 2021 (H1 2020: approximately 356 thousand), meaning that Deka now manages a total of almost 6.4 million contracts.

The significantly increased appeal of securities is also reflected in the number of DekaBank securities accounts, which rose by 110 thousand to 5.1 million. This development was even more pronounced with regard to the number of transactions, which increased by around 6% to 50.1 million as against the first half of 2020.

Deka Group net sales *in €m (Fig. 1)*

	1st half 2021	1st half 2020
Net sales	**13,553**	**14,470**
by customer segment		
Retail customers	11,050	6,923
Institutional customers	2,503	7,547
by product category		
Mutual funds and fund-based asset management	7,769	4,558
Special funds and mandates	872	5,645
Certificates	4,498	3,711
ETFs	414	556

Net sales, coupled with positive performance and the integration of the total customer assets of IQAM Invest GmbH at the beginning of 2021 (around €7bn), fuelled an increase in total customer assets to €368.3bn (year-end 2020 €339.2bn).

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

	30 Jun 2021	31 Dec 2020	Change	
Total customer assets	**368,318**	**339,160**	29,158	8.6%
by customer segment				
Retail customers	181,110	167,159	13,951	8.3%
Institutional customers	187,208	172,001	15,207	8.8%
by product category				
Mutual funds and fund-based asset management	179,850	161,226	18,624	11.6%
Special funds and mandates	153,178	144,695	8,483	5.9%
Certificates	24,073	23,712	361	1.5%
ETFs	11,217	9,527	1,691	17.7%

See also: Capital adequacy in the first half of 2021: page 36 ff.

The Common Equity Tier 1 capital ratio amounted to 15.3% as at 30 June 2021. Owing to higher Common Equity Tier 1 capital and lower risk-weighted assets (RWA), it has increased by 1.1 percentage points compared to the end of the previous year.

Common Equity Tier 1 capital amounted to €4,694m (year-end 2020: €4,437m). The increase was due primarily to the inclusion of year-end effects from 2020 (profit retention and inclusion of the risk provisions set up in 2020 in the comparison of provisions).

RWA fell by 1.9% from the year-end 2020 figure of €31,307m to €30,716m. As expected, credit risk increased by €2,412m as against the end of the year to €20,017m, primarily due to the first-time application of CRR II. This results in higher RWA for guarantee products due to the application of the CCF (credit conversion factor) approach and higher RWA due to the application of the SA-CCR approach when determining the counterparty risk associated with derivatives. The increased credit risk was offset by a drop in market risk of €2,900m to €6,678m. This was mainly attributable to a drop in general market risk as a result of lower spread volatilities and to a drop in specific market risk resulting from the adjustment to reflect the new interpretation of the use of offsetting options in specific interest rate risk. Operational risk increased slightly by €20m to €3,505m. CVA risk came to €516m (year-end 2020: €638m).

The leverage ratio (fully loaded) rose from 5.6% at the end of 2020 to 5.7% at 30 June 2021. This was substantially above the minimum leverage ratio of 3.0% to be adhered to from June 2021 onwards.

The MREL requirements were changed to an RWA- and LRE-based calculation method in the middle of 2021. The total of own funds and MREL-eligible liabilities is expressed in relation to RWA and LRE. As at the reporting date, the MREL ratio in line with the RWA-based approach amounted to 61.6%, while the figure according to the LRE-based approach came to 21.0%. Both ratios were well above the minimum ratios that will apply as of 1 January 2022.

The subordinated MREL requirements were also calculated using the RWA- and LRE-based method. The total of own funds and all subordinated liabilities eligible based on statutory requirements is expressed in relation to RWA and LRE. As at the reporting date, the subordinated MREL requirements under the RWA-based approach were 44.8%, while the figure under the LRE-based approach came to 15.3%. Both ratios were well above the minimum ratios that will apply as of 1 January 2022.

See also: Liquidity adequacy in the first half of 2021: page 40 ff.

The Deka Group had ample liquidity, measured using the liquidity balances and liquidity coverage ratio (LCR) throughout the first half of 2021. The LCR at the mid-year point was 149.7% (year-end 2020: 185.6%), putting it above the minimum requirement of 100%.

The net stable funding ratio (NSFR) came to 118.5%, meaning that, at the end of June, it was substantially above the minimum limit of 100% applicable as of June 2021. The ratio expresses available stable funding in relation to required stable funding. The NFSR is thus designed to ensure stable long-term funding for assets in relation to their degree of liquidity. A period of one year forms the basis for the assessment.

Economic risk-bearing capacity was at a non-critical level overall at the end of June 2021. The utilisation of risk appetite (51.1%) was down significantly on the end of the previous year (70.5%) due to lower total risk. This was mainly due to a significant drop in counterparty, market price and business risk. At 36.8%, utilisation of risk capacity was also significantly below the figure for year-end 2020 (53.9%).

Profit performance of the Deka Group

The economic result as at the end of the first six months of 2021 stood at €342.9m. This was noticeable higher than the result for the first half of 2020 (€162.5m), mainly due to much higher net commission income as well as to positive net risk provisions and actuarial gains on pension provisions. Income rose by 22.5% to €928.3m (H1 2020: €757.9m). At €585.4m, expenses were 1.7% lower than in the first half of 2020 (€595.5m) despite the increase in the bank levy.

Net interest income of €74.9m was incurred in the reporting period (H1 2020: €96.6m). The main component came from the earnings contribution made by real estate financing and specialised financing, and was above the level seen in the prior-year period overall. Meanwhile, there was a reduced earnings contribution from strategic investments, mainly due to lower volumes. Measures to optimise portfolios while achieving an appropriate risk/reward ratio were implemented here in the previous year as part of active risk management.

Net risk provisions in the lending and securities business came to €18.4m in the first half of 2021 (H1 2020: €–68.9m). No new specific provisions were set up in the six months under review. In addition to this, rating improvements and transfers to other stages led to reversals of provisions. Risk provisions of €–0.1m were attributable to the lending business (H1 2020: €–67.3m). The Specialised Financing subdivision accounted for a net reversal in the amount of €15.6m in the reporting period, while the Real Estate Financing subdivision accounted for a net allocation of €16.5m. For the securities business, the reversal of provisions that were no longer required resulted in positive net risk provisions of €18.5m (H1 2020: €–1.6m).

Net commission income rose to €738.3m (H1 2020: €576.7m), meaning that it accounted for 80% of income. Commission from the investment fund business increased, in particular due to higher portfolio-related commission as a result of higher average total customer assets. Higher purchasing and construction fees were also collected. Commission from banking business was down year-on-year. Higher income from securities management was not sufficient to compensate for the lower income from commission business. Commission from the custody account business was in the reporting period slightly below the comparative figure for the previous year overall.

Net financial income was €25.0m, substantially below the figure for the first half of 2020 (€178.0m). 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 €134.2m, net financial income from the trading book was lower than the prior-year value (€152.2m). A key component was income from the Trading & Structuring unit, although this saw a slight drop year-on-year. The earnings contribution from the Collateral Trading & Currency unit was also down on the comparative figure for the previous year.

Net financial income from the banking book was €–109.3m (H1 2020: €25.8m). In the wake of spread movements, there was a lower valuation result from own issues compared with the previous year. An amount of €105.0m was also added to the general provision for potential risks (H1 2020: €50.0m). 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.

Other operating profit was €71.8m (H1 2020: €–24.4m). Actuarial gains of €104.7m on provisions for pensions had a positive effect. These resulted both from the increase in the actuarial interest rate to 1.05% (year-end 2020 0.70%) as well as from the increase in plan assets. In the previous year, actuarial losses of €–19.2m were recognised on provisions for pensions. 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.

Personnel expenses rose slightly in line with expectations to €285.1m (H1 2020: €276.5m), mainly due to the larger workforce following the acquisition of IQAM Invest GmbH and to collectively agreed wage and salary increases. Other administrative expenses including depreciation and amortisation remained almost constant at €223.2m (H1 2020: €224.8m).

The annual contribution to the deposit deposit guarantee scheme of the *Landesbanken* and *Girozentralen* amounted to €18.5m (H1 2020: €20.4m). At €61.0m, the bank levy was €8.7m higher than in the comparative period (€52.4m).

Within restructuring expenses, there was a net reversal of restructuring provisions in the amount of €2.4m in the first half of 2021. The prior-year value was characterised by additions in connection with HR measures and resulted primarily from the strategic cost initiative, which is focusing on a lasting reduction in personnel and operating expenses.

The cost/income ratio, i.e. the ratio of total expenses (excluding restructuring expense) to total income (before risk provisions in the lending and securities business), was 64.6% (H1 2020: 69.4%).

Balance sheet-based return on equity (before tax) stood at 13.5% (H1 2020: 6.6%).

Deka Group performance *in €m (Fig. 3)*

	1st half 2021	1st half 2020	Change	
Net interest income	74.9	96.6	–21.8	–22.5%
Risk provisions in the lending and securities business	18.4	–68.9	87.3	126.7%
Net commission income	738.3	576.7	161.6	28.0%
Net financial income	25.0	178.0	–153.0	–86.0%
Other operating profit	71.8	–24.4	96.3	(> 300%)
Total income	**928.3**	**757.9**	170.4	22.5%
Administrative expenses (including depreciation and amortisation)	587.8	574.0	13.8	2.4%
Restructuring expense	–2.4	21.5	–23.9	–111.3%
Total expenses	**585.4**	**595.5**	–10.1	–1.7%
Economic result	**342.9**	**162.5**	180.5	111.1%

Business development and profit performance by business division

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

The Asset Management Securities business division posted an economic result of €263.1m in the first half of 2021 (H1 2020: €121.4m). At €7.2bn, net sales in the first half of 2021 lagged behind the previous year's figure of €8.9bn. For retail customers, the figure increased considerably compared to the previous year, while a one-off effect led to a significant decline in net sales to institutional customers. Total customer assets rose to €296.3bn as at 30 June 2021 (year-end 2020: €269.7bn).

Net sales and total customer assets

Net sales in the Asset Management Securities business division totalled €7.2bn in the first six months of the year (H1 2020: €8.9bn). Business with retail customers improved significantly compared to the previous year. Net sales of mutual securities funds (including fund-based asset management) were €6.2bn (H1 2020: €2.8bn). The sales situation improved in all major segments compared to the first half of 2020. With net sales totalling €0.4bn, ETFs were unable to match the previous year's figure of €0.6bn. Inflows relating to ETF equity funds were offset by outflows from ETF bond funds.

Net sales of special funds and mandates (including master funds) came to €0.5bn (H1 2020: €5.5bn). The change reflected the one-off effect constituted by the departure of a major master funds customer. By contrast, advisory/management mandates and securities special funds in particular showed positive development and more than compensated for the outflows from master funds.

Net sales performance in the Asset Management Securities business division *in €m (Fig. 4)*

	1st half 2021	1st half 2020
Net sales	**7,153**	**8,882**
by customer segment		
Retail customers	6,192	3,011
Institutional customers	961	5,871
by product category		
Mutual funds and fund-based asset management	6,205	2,824
ETFs	414	556
Special funds and mandates	535	5,503

At the end of the first half of 2021, total customer assets in this business division amounted to €296.3bn, €26.6bn higher than the year-end value for 2020 thanks to positive sales, equally positive investment performance and the inclusion of the portfolio of IQAM Invest GmbH (around €7bn).

Total customer assets in the Asset Management Securities business division *in €m (Fig. 5)*

	30 Jun 2021	31 Dec 2020	Change	
Total customer assets	**296,312**	**269,716**	26,596	9.9%
by customer segment				
Retail customers	130,401	118,436	11,965	10.1%
Institutional customers	165,911	151,280	14,631	9.7%
by product category				
Mutual funds and fund-based asset management	141,827	124,721	17,107	13.7%
thereof: equity funds	51,537	42,257	9,280	22.0%
thereof: bond funds	28,216	27,312	903	3.3%
thereof: mixed funds	22,224	18,726	3,498	18.7%
ETFs	11,217	9,527	1,691	17.7%
Special funds and mandates	143,268	135,469	7,799	5.8%

Profit performance in the Asset Management Securities business division

At €263.1m, the division's economic result was up significantly compared to the same period of the previous year (€121.4m). This was largely due to the strong increase in net commission income, especially as a result of higher portfolio-related commission. In addition, market conditions meant that the necessary allocations to provisions for guarantee products were lower than in the previous year. At €176.5m, expenses were roughly on a par with the previous year's figure of €174.0m.

Profit performance in the Asset Management Securities business division *in €m (Fig. 6)*

	1st half 2021	1st half 2020	Change	
Net commission income	450.7	314.4	136.2	43.3%
Other income	–8.5	–3.6	–4.9	–133.9%
Total income	**442.1**	**310.8**	**131.3**	**42.3%**
Administrative expenses (including depreciation and amortisation)	175.7	173.7	2.0	1.1%
Restructuring expense	0.8	0.3	0.5	214.4%
Total expenses	**176.5**	**174.0**	2.5	1.4%
Economic result before income distribution of Treasury-function	**265.7**	**136.8**	128.8	94.2%
Income distribution of Treasury function	–2.5	–15.4	12.9	83.6%
Economic result	**263.1**	**121.4**	141.8	116.8%

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

At €81.7m, the economic result in the Asset Management Real Estate business division exceeded the figure for the first half of 2020 (€52.8m). Net sales remained stable year-on-year at €1.9bn. With continued sound investment performance, total customer assets stood at €47.9bn.

Net sales and total customer assets

Net sales were almost unchanged year-on-year at €1.9bn. As in previous years, the tried-and-tested quota system for sales to retail customers was maintained. This allows the inflow of funds into the products to be managed efficiently, even in the face of high demand. What is more, the funds' liquidity resources can be limited in the current low interest rate environment. This also helps to prevent excessive investment pressure arising in view of the continuing high real estate prices.

Mutual funds accounted for 82% of the division's net sales. WestInvest InterSelect, which focuses on Europe, continued to register particularly high demand. There was also keen demand for Deka-ImmobilienMetropolen, which invests globally, in its second sales year. Since April 2021, the fund has been classified as sustainable in accordance with Article 8 of the Disclosure Regulation, together with Deka-ImmobilienGlobal.

The net inflow into special funds, individual property funds, credit funds and mandates was €0.3bn, which was higher than the comparative figure for the previous year.

Net sales performance in the Asset Management Real Estate business division *in €m (Fig. 7)*

	1st half 2021	1st half 2020
Net sales	**1,902**	**1,876**
by customer segment		
Retail customers	1,460	1,609
Institutional customers	442	267
by product category		
Mutual property funds	1,565	1,734
Special funds, individual property funds and mandates	337	142

Despite distributions of around €0.5bn, total customer assets in the Asset Management Real Estate business division rose by 4.8% to €47.9bn (year-end 2020: €45.7bn), of which €34.7bn related to products for retail customers. A yield-focused cash management policy and the launch of a new special fund focused on German logistics real estate also contributed to the increase in total customer assets. Euro-denominated mutual property funds achieved an average volume-weighted return of 2.1% (year-end 2020: 2.3%).

The ongoing effects of the COVID-19 crisis and sustained high prices on the real estate markets prevented an increase in the volume of real estate purchase and sale transactions, which came to around €1.5bn (H1 2020: €2.0bn). Around 88% of the overall transaction volume concerned a total of 16 contractually secured property purchases. There were 5 disposals, representing around 12% of the transaction volume. Business activities continue to centre on properties in the office, retail, logistics and hotel asset classes.

Total customer assets in the Asset Management Real Estate business division *in €m (Fig. 8)*

	30 Jun 2021	31 Dec 2020	Change	
Total customer assets	**47,933**	**45,732**	2,201	4.8%
by customer segment				
Retail customers	34,705	33,397	1,307	3.9%
Institutional customers	13,228	12,335	894	7.2%
by product category				
Mutual property funds	38,023	36,505	1,517	4.2%
Special funds, individual property funds and mandates	9,910	9,227	684	7.4%

Profit performance in the Asset Management Real Estate business division

The economic result of the Asset Management Real Estate business division stood at €81.7m in the first half of 2021 compared with €52.8m in the prior-year period. The year-on-year increase was due primarily to higher net commission income. This was attributable in particular to a year-on-year increase in portfolio-related commission and purchasing and construction fees. Expenses for the first six months of the year showed a stable trend.

Profit performance in the Asset Management Real Estate business division *in €m (Fig. 9)*

	1st half 2021	**1st half 2020**	Change	
Net interest income	0.3	0.3	0.0	14.2%
Net commission income	150.4	125.1	25.3	20.2%
Net financial income	0.7	–1.5	2.2	148.7%
Other operating profit	2.4	1.1	1.3	116.9%
Total income	**153.9**	**125.0**	28.9	23.1%
Administrative expenses (including depreciation and amortisation)	71.9	71.6	0.3	0.5%
Total expenses	**71.9**	**71.6**	0.3	0.5%
Economic result before income distribution of Treasury-function	**82.0**	**53.4**	28.6	53.5%
Income distribution of Treasury function	–0.2	–0.6	0.4	61.5%
Economic result	**81.7**	**52.8**	28.9	54.8%

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

The economic result as of the end of June 2021 was €2.7m (H1 2020: €17.8m). The number of securities accounts and assets under custody (assets held by the Deka Group in its capacity as custodian bank) in Digital Multichannel Management increased again year-on-year. Assets under custody in the Depositary subdivision also showed positive development, rising by around 8% to €248.8bn compared to the end of 2020.

Business development in the Asset Management Services business division

Due to market developments in the first half of 2021, assets under custody in the Digital Multichannel Management subdivision rose to €159.4bn (year-end 2020: €144.8bn). The number of securities transactions also increased year-on-year to 50.1 million (H1 2020: 47.2 million). This was due to the continued high sales figures for savings agreements as well as a noticeable rise in the number of transactions via S Broker, the Deka Group's online broker. By mid-2021, the robo-advisory service bevestor had been integrated into the sales of 325 savings banks (year-end 2020: 314) as part of a cooperation model. bevestor has currently arranged an investment volume of around €120m and manages just under 20,000 customer custody accounts.

Assets under custody increased to €248.8bn in line with the development in asset management and due to the growth resulting from the acquisition of new customers (year-end 2020: €230.8bn). The number of custody accounts for which the division is the legal provider rose by 110thousand to 5.1 million in the first half of 2021. Regular savings products were a key driver.

Profit performance in the Asset Management Services business division

The economic result for the Asset Management Services business division was €2.7m in the first half of 2021 (H1 2020: €17.8m). The largest income component was net commission income amounting to €103.2m (H1 2020: €99.6m). The increase was due in particular to a strong increase in transaction volume at S Broker, as well as increased commission from the banking business due to the positive market development. Other operating profit was hit by a provision recognised due to a ruling by the German Federal Court of Justice (BGH) on the mechanism for amending general terms and conditions of business. Expenses came to €94.0m, up on the first half of 2020 (€85.8m) due to higher postage costs, as well as higher settlement costs due to increased volumes and sales.

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

	1st half 2021	1st half 2020	Change	
Net interest income	1.8	0.8	1.0	120.7%
Risk provisions in the lending and securities business	1.1	−0.1	1.2	(> 300%)
Net commission income	103.2	99.6	3.7	3.7%
Net financial income	0.8	0.8	0.1	8.0%
Other operating profit	−9.9	3.0	−12.9	(< -300%)
Total income	**97.0**	**104.0**	−7.0	−6.7%
Administrative expenses (including depreciation and amortisation)	94.0	85.8	8.2	9.5%
Total expenses	**94.0**	**85.8**	8.2	9.5%
Economic result before income distribution of Treasury-function	**3.0**	**18.2**	−15.2	−83.4%
Income distribution of Treasury function	−0.3	−0.4	0.1	27.8%
Economic result	**2.7**	**17.8**	−15.1	−84.8%

Business development and profit performance in the Capital Markets business division

At €75.0m, the economic result reported by the Capital Markets business division was down on the previous year's figure of €89.5m. The business division continued to fulfil its important role as the Deka Group's provider of products, solutions and infrastructure.

Business development in the Capital Markets business division

The Collateral Trading & Currency subdivision remains well positioned in the repo/lending business, among other areas. Due to the persistent low interest rate environment and ongoing high level of market liquidity, however, it lagged behind the comparable figure for the previous year. The commission business was also unable to match the previous year's figure, which was characterised by high market volatility and turnover during the first lockdown in 2020. In the Trading & Structuring subdivision, too, the ongoing effects of the coronavirus crisis kept performance slightly below the previous year's figure. Net sales of certificates amounted to €4.5bn (H1 2020: €3.7bn). At €3.4bn, retail customers accounted for the lion's share of demand (H1 2020: €2.3bn). Certificate sales to institutional customers came to €1.1bn (H1 2020: €1.4bn).

Profit performance in the Capital Markets business division

At €75.0m, the division's economic result in the reporting period was down on the comparative figure for the previous year (€89.5m). This was mainly due to lower volumes in the Commission Business unit and in the repo/lending business. At €88.3m, expenses were slightly higher than the equivalent figure for the previous year.

Profit performance in the Capital Markets business division *in €m (Fig. 11)*

	1st half 2021	1st half 2020[1]	Change	
Net interest income	2.2	2.9	–0.6	–22.5%
Risk provisions in the lending and securities business	0.0	–	0.0	o.A.
Net commission income	28.9	34.2	–5.3	–15.4%
Net financial income	134.6	152.7	–18.1	–11.8%
Other operating profit	1.1	1.0	0.1	6.9%
Total income	**166.8**	**190.7**	**–23.9**	**–12.5%**
Administrative expenses (including depreciation and amortisation)	88.3	85.8	2.5	2.9%
Total expenses	**88.3**	**85.8**	**2.5**	**2.9%**
Economic result before income distribution of Treasury-function	**78.5**	**104.9**	**–26.4**	**–25.1%**
Income distribution of Treasury function	–3.5	–15.4	11.9	77.3%
Economic result	**75.0**	**89.5**	**–14.5**	**–16.2%**

[1] Since the start of 2021, own investments in securities in the banking book (strategic investments) have been managed in the Treasury corporate centre; until 2020, they were the responsibility of the Capital Markets segment. Together with the securities in the liquidity buffer, both holdings form the Deka Group's liquidity management portfolio. The values for 2021 reflect the new structure. The previous year's figures in the Capital Markets segment and in the Treasury corporate centre have been adjusted accordingly to improve comparability with regard to income and key risk figures. In view of the principle of materiality, the retrospective allocation of expenses and the adjustment of the distribution of income for the Treasury function were waived.

Business development and profit performance in the Financing business division

The Financing business division reported an economic result of €50.3m for the first six months of 2021 (H1 2020: €–31.5m). The development in risk provisions had a positive effect because no new specific provisions were set up in 2021. Gross loan volume in the division fell slightly by around 1.4% to €24.5bn at mid-year.

Business development in the Financing business division

Gross loan volume in the Specialised Financing subdivision fell to €14.0bn (year-end 2020: €14.6bn). Infrastructure financing accounted for €3.8bn (year-end 2020: €3.7bn), export financing for €1.4bn (year-end 2020: €1.4bn) and public sector financing for €3.2bn (year-end 2020: €2.9bn). Transport financing has been hit particularly hard by the COVID-19 crisis. Of the total amount of €3.4bn (year-end 2020: €3.9bn), aircraft financing accounted for €2.6bn (year-end 2020: €2.9bn) and ship financing for €0.9bn (year-end 2020: €1.0bn). The volume of aircraft financing is currently on the decline due to the decision not to engage in new business, as well as due to disposals. Gross loan volume for savings bank financing fell from the year-end figure of €2.6bn to €2.0bn.

The legacy portfolio, which primarily contains ship financing loans that were made before the lending risk strategy was changed in 2010, had been reduced to virtually zero by the middle of 2021 (€0.05bn). At the end of 2020, the portfolio had a volume of €0.06bn.

Gross loan volume in the Real Estate Financing subdivision increased moderately during the first half of 2021 to €10.5bn (year-end 2020: €10.3bn). The volume of commercial property loans rose to €8.0bn (year-end 2020: €7.8bn). In relation to the gross loan volume in the Real Estate Financing subdivision, around 7% was attributable to the retail use type, compared with 8% at the end of 2020, and an unchanged figure of around 4% to the hotel use type. Financing volume in open-ended real estate funds fell slightly to €2.4bn (year-end 2020: €2.5bn).

Compared to year-end 2020, the average rating for the loan portfolio as a whole according to the DSGV master scale deteriorated by one notch to 7, mainly due to the effects of the coronavirus pandemic. This corresponds to a rating of "BB" on S&P's external rating scale. The average rating for Specialised Financing slipped from 6 at the year-end 2020 to 7 (S&P: "BB+" to "BB"). The rating for Real Estate Financing also changed by one notch from 5 to 6 (S&P: from "BBB–" to "BB+"). Taking account of collateralised assets, the average rating for Real Estate Financing deteriorated from "AA–" (S&P: "A+") to 2 (S&P: "BBB+") on the DSGV master scale.

The new business volume in the Financing business division was up in a year-on-year comparison at the end of the first half of 2021 and amounted to €2.1bn (H1 2020: €1.9bn). New business in Specialised Financing, at €0.9bn, exceeded the figure for the first half of 2020 by around 4% (H1 2020: €0.9bn). New real estate financing business also increased year-on-year to €1.1bn (H1 2020: €1.0bn).

The total volume of placements fell compared to the value at the end of the first half of 2020 (€0.3bn) and came to around €0.2bn. The lion's share of this amount was once again placed directly with the *Sparkassen-Finanzgruppe*.

Profit performance in the Financing business division

The Financing business division ended the first six months of 2021 with an economic result of €50.3m (H1 2020: €–31.5m). A positive risk provisioning result of €2.7m at the end of the first half of the year (H1 2020: €–66.6m) was a key factor in this profit performance. Net interest income from operating activities was down on the previous year's level, primarily due to the pandemic, but outstripped the comparative figure overall thanks to the collection of premium advantages resulting from the achievement of corresponding targets for eligible new lending business in the context of the targeted longer-term refinancing operations (TLTRO III) with the central bank. Net commission income, which is driven by new business, remained at a low level comparable to that seen in the first half of 2020 due to the impact of the ongoing COVID-19 crisis on the segments responsible for generating commission income. Net financial income was positive at €1.2m (H1 2020: €–13.0bn). The increase was due to positive effects from loans measured at full fair value. Expenses showed a moderate year-on-year increase to €33.6m.

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

	1st half 2021	1st half 2020	Change	
Net interest income	74.4	69.6	4.8	6.9%
Risk provisions in the lending and securities business	2.7	–66.6	69.3	104.0%
Net commission income	6.7	5.8	0.9	14.8%
Net financial income	1.2	–13.0	14.2	109.6%
Other operating profit	0.3	–0.1	0.4	(> 300%)
Total income	**85.3**	**–4.3**	89.5	(> 300%)
Administrative expenses (including depreciation and amortisation)	33.6	32.4	1.2	3.7%
Total expenses	**33.6**	**32.4**	1.2	3.7%
Economic result before income distribution of Treasury-function	**51.6**	**–36.7**	88.3	240.7%
Income distribution of Treasury function	–1.4	5.2	–6.6	–126.6%
Economic result	**50.3**	**–31.5**	81.8	259.5%

Financial position of the Deka Group

Changes in the Deka Group balance sheet

As was expected, the Deka Group's total assets increased by 10.3% as against the end of 2020 to €94.3bn (year-end 2020: €85.5bn). This was mainly due to the increase in excess short-term liquidity from repo transactions and current account deposits on the liabilities side, which was also a result of the low interest rate environment. These transactions on the liabilities side were also reflected in increased cash reserves on the assets side.

The amount due from banks and customers rose during the reporting period by a total of €3.8bn to €44.8bn and equated to around half of total assets (48%). The change resulted mainly from new reverse repo transactions. Financial assets reported at fair value declined by €3.6bn to €19.4bn, due in particular to the reduction in bonds in synthetic lending transactions as a result of lower volumes. Financial investments fell slightly compared to the end of the previous year to €9.8bn.

Amounts due to banks and customers rose by €5.9bn in total to €44.7bn, and thus accounted for around 47% of total assets. This change was mainly due to an increase in economically advantageous repo transactions with banks, as well as to higher current account deposits. Securitised liabilities also rose significantly in the reporting period, increasing by €3.5bn to €11.1bn. The increase was caused by the issue of commercial papers. Financial liabilities at fair value dropped moderately to €29.6bn (year-end 2020: €30.5bn).

Changes in the Deka Group balance sheet *in €m (Fig. 13)*

	30 Jun 2021	31 Dec 2020	Change	
Total assets	**94,310**	**85,509**	**8,801**	10.3%
Selected asset items				
Due from banks and customers	44,811	40,967	3,845	9.4%
Financial assets at fair value	19,394	22,982	–3,588	–15.6%
Financial investments	9,840	10,567	–727	–6.9%
Selected liability items				
Due to banks and customers	44,725	38,801	5,924	15.3%
Securitised liabilities	11,142	7,656	3,486	45.5%
Financial liabilities at fair value	29,630	30,550	–920	–3.0%

See also:
Risk report:
page 35 ff.

Capital and liquidity adequacy

Full details of capital and liquidity adequacy in the first half of 2021 are provided in the risk report section of the Interim management report.

Ratings

DekaBank's ratings remained among the best in its peer group of German commercial banks at mid-year. This enables access to the money and capital markets on stable and competitive terms.

The rating assessments from S&P and Moody's 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.

On 24 June 2021, S&P subjected DekaBank and several other institutions to a rating action due to a change in the market assessment for the banking sector. In response to a more critical assessment of the economic environment for banks, S&P had downgraded the ratings for the German banking sector. This also affected the rating of the *Sparkassen-Finanzgruppe*, which had an indirect impact on DekaBank's ratings. As a central (core) member of the *Sparkassen-Finanzgruppe*, DekaBank's ratings are limited by the Group rating of the *Sparkassen-Finanzgruppe*. The downgrading of the savings banks also resulted in the support notching being lowered by one notch, and DekaBank's ratings fell accordingly.

Ratings overview *(Fig. 14)*

	Standard & Poor's	Moody's
Bank Ratings		
Issuer Rating	A (stable) Issuer Credit Rating	Aa2 (stable) Issuer Rating
Counterparty Rating	N/A	Aa2 Counterparty Risk Rating
Deposit Rating	N/A	Aa2 Bank Deposits
Own financial strength	bbb Stand-alone Credit Profile	baa2 Baseline Credit Assessment
Short-term rating	A–1 Short-term Rating	P–1 Short-term Rating
Issuance Ratings		
Preferred Senior Unsecured Debt	A Senior Unsecured Debt	Aa2 (stable) Senior Unsecured Debt
Non-Preferred Senior Unsecured Debt	A– Senior Subordinated Debt	A1 Junior Senior Unsecured Debt
Public Sector Covered Bonds	N/A	Aaa Public Sector Covered Bonds
Mortgage Covered Bonds	N/A	Aaa Mortgage Covered Bonds

Human resources report

The Deka Group employed a total of 4,823 people as of 30 June 2021 (year-end 2020: 4,711). 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 rose slightly from 4,131 at the end of 2020 to 4,199. This was mainly due to the IQAM Invest GmbH employees being taken on. The number 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.

Forecast report

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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.

Risk report

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Risk policy and strategy

The basic principles underlying the Deka Group's risk policy and strategy remain largely unchanged from those described in the Group management report for 2020. In order to achieve its commercial objectives, the Deka Group accepts certain risks in line with strategic requirements. These risks are limited by a comprehensive risk management system that covers all types of risk and all business divisions, sales and corporate centres in order to ensure the success of the Deka Group as a business. The framework for business and risk management is provided by the general concept of risk appetite (Risk Appetite Framework – RAF), which forms the main basis for assessing the adequacy of internal capital and liquidity (Internal Capital Adequacy Assessment Process (ICAAP)/Internal Liquidity Adequacy Assessment Process (ILAAP)) and is an integral part of the Deka Group's strategy system. A strong risk culture for the Deka Group is also key to the lasting achievement of the business policy objectives set out in the business strategy.

Whereas the first quarter of 2021 was still dominated by the COVID-19 pandemic and its impact on both the real economy and the financial markets, a clear economic recovery emerged in the second quarter. Various changes were made in 2020 to ensure that the models used by the Deka Group for economic risk management purposes continue to reflect the corporate and market situation in an appropriate and timely manner despite this changed environment. In particular, the risk-bearing capacity calculation in the stress phase involves the additional inclusion of AT1 capital in internal capital. As the market situation continues to ease, the risk-bearing capacity calculation is expected to move to the normal phase, meaning that the inclusion of AT1 capital is likely to be dropped in the course of the year. In order to avoid the impact of excessive market reactions in connection with the COVID-19 crisis and thus excessive procyclical effects in risk management, the observation period for determining historical volatilities in the calculation of economic market price risk was also extended from one to three years. Furthermore, the averaging period for calculating the bond segment curves in order to determine the economic counterparty risk was permanently increased from 20 days to 60 days, as this approach reduces fluctuations resulting from short-term changes in the curves so that they do not overshadow the view of actual portfolio developments.

Risk management and control are reviewed and refined as required on an ongoing basis, taking due account of regulatory requirements.

The Deka Group continued to press ahead with the project initiated in the previous year to implement the vision adopted by the Board of Management for the establishment of an integrated management system for non-financial risks (NFR). Implementing a uniform valuation methodology and consolidated NFR reporting, for example, is ultimately to lead to more efficient and effective processes for identifying, measuring and managing NFR. To increase the granularity of the risk appetite statement, an additional operational limit was introduced at the level of the operational risk sub-types at the end of June. A corresponding methodology was rolled out for redistributing the risk contribution for operational risks to these sub-risk types, as was a process for setting and monitoring the operational limits with the involvement of the individuals responsible for the sub-risk types in the second line of defence. At the same time, further steps were also taken towards developing a holistic reputational risk management system by incorporating relevant business processes into a uniform system for risk assessment and decision-making.

Given how important sustainability risks are from a macroeconomic perspective and in light of the corresponding marked increase in regulatory expectations, the Deka Group has recently significantly stepped up its activities in this area. Sustainability risks are not seen as a type of risk in their own right, but rather as a driver of existing types of risk. A comprehensive analysis of the handling of climate and environmental risks was already performed last year. Taking regulatory expectations into account, a comprehensive action plan for business strategy, governance, risk management and disclosure was drawn up based on an analysis of the status quo. Measures already taken in 2021 are initially intended to boost transparency through a Group-wide analysis of the impact of climate and environmental risks and to refine the strategic and organisational basis for dealing with sustainability risks. With regard to the inclusion of sustainability aspects in DekaBank's lending processes, extensive measures were taken in line with regulatory requirements (primarily the EBA Guidelines on loan origination and monitoring) in order to adapt rules and procedures appropriately in the areas of governance, loan origination, pricing, collateral and monitoring. The development of segment-specific ESG scorecards, which have been in use for new business and renewals since 1 July 2021, are worthy of particular mention in this regard.

The ECB has also announced a climate stress test for the first half of 2022. In various modules, institutions will be asked to answer questions on the climate stress testing framework, to collect key figures on portfolios relevant to climate risk and to conduct a bottom-up stress test including a total of nine stress scenarios with different time horizons. The Deka Group is analysing the draft requirements communicated by the ECB to date and taking preparatory measures.

In the wake of the ECB guide to internal models published back in November 2018, more supervisory reviews of internal models under Pillar I of the Basel Accord (Targeted Review of Internal Models, TRIM) were conducted. The reviews aimed to reduce the variability of model results and thereby increase confidence in internal models. They affected the internal rating models for credit risk (IRBA), internal market risk models (IMA) and internal models for estimating exposure to counterparty risk (IMM). With regard to the IRB approach, suitable measures to fulfil the requirements were initiated based on the findings of the 2019 on-site audit in the fund rating module as part of the TRIM and are currently being worked through. TRIM audits concerning counterparty risk did not affect DekaBank.

In addition, as part of the implementation of the EBA Guidelines on PD estimation, LGD estimation and treatment of defaulted assets, further IRB reviews are currently being carried out for four modules in connection with the corresponding model change notifications. In the coming year, more of these reviews will be conducted until all IRB rating modules have been reviewed by the supervisory authority.

The potential economic impact of changes to the Credit Risk Standardised Approach (CRSA) and the Internal Ratings Based Approach (IRBA) that are currently planned as part of the finalisation of Basel III (Basel IV) continues to be monitored. The same applies to the Fundamental Review of the Trading Book (FRTB). The measures needed to fulfil the requirements of the new FRTB standard approach are already being implemented. The planned introduction of the Standardised Measurement Approach (SMA) for calculating operational risk capital, which could also affect Pillar II of the Basel framework under certain circumstances, is also being monitored.

Capital adequacy in the first half of 2021

See also: Economic report: page 11 ff.

The risk position presented in the risk report relates to the Deka Group's risk position overall, and therefore corresponds to the definition used as the basis for presentation of the Deka Group's business development and profit performance in the economic report.

While in the first quarter of the year, the negative effects associated with ongoing lockdowns to contain the COVID-19 pandemic were still keeping the handbrake on the economy, a clear economic recovery emerged at the beginning of the second quarter. The positive economic environment overall, with expectations of rising corporate profits, continues to be reflected in a generally positive situation on the financial markets. In addition to price gains on the stock markets, this is reflected in particular in low risk premiums on the credit and bond markets.

The reforms to interest rate benchmarks (reference rates) initiated by the Financial Stability Board resulted in further noticeable changes on the market in the first half of 2021. After the focus in 2020 was on establishing the new reference rates, such as the Euro Short-Term Rate (€STR), Secured Overnight Financing Rate (SOFR) and Sterling Overnight Index Average (SONIA) in the market, the emphasis in 2021 is on switching existing transactions over to the new rates. The discontinuation of LIBOR rates at the end of 2021, especially for three currencies, the British pound sterling (GBP), the Japanese yen (JPY) and the Swiss franc (CHF), means that the transition is mandatory for the affected transactions. Pressure in this regard, particularly from the UK banking regulator, has led to an early shift away from GBP LIBOR and towards GBP SONIA in the market.

The retirement of key LIBOR rates means that DekaBank will have to make significant adjustments to its systems, models and data repositories in the course of the year, in addition to contractual adjustments. Some of these have already been implemented successfully or are in the process of being implemented on schedule. Another aspect will involve the definitive switch of corresponding LIBOR-based derivative contracts with central counterparties in the second half of 2021. By contrast, the development of option markets for the new reference rates is still in its infancy. Moves by the supervisory authorities to push market development should, however, provide significant impetus in this area, too, in the coming months.

Looking at the Deka Group, market development in the first half of 2021 was characterised by very strong performance on the stock markets and declining volatility. This has contributed to very positive issuing business, especially for share certificates. Due to the neutral risk position, developments on the stock markets and rising swap interest rates, especially at the long end, had only a minor impact on the risk situation. The sideways trend in credit spreads also contributed to the low impact. By contrast, market developments have resulted in a significant drop in risks from Riester products and pension obligations.

The Deka Group held adequate capital throughout the reporting period. In particular, the Common Equity Tier 1 capital ratio and utilisation of risk capacity and of the risk appetite remained at non-critical levels throughout.

Economic perspective (current situation)

During the reporting period, the models employed by the Deka Group for economic risk management continued to reflect the corporate and market situation in an appropriate and timely manner. The Deka Group’s total risk (value-at-risk – VaR; confidence level 99.9%; holding period one year) stood at €2,045m at the end of the first half of the year. As such, it showed a significant drop relative to the position at the end of 2020 (€2,821m), mainly due to the dwindling effects of the coronavirus crisis. This was based on significantly lower counterparty, market price and business risk, while operational risk and investment risk increased slightly.

Over the same period, risk capacity rose to €5,560m (year-end 2020: €5,236m). This increase was driven primarily by the increase in retained earnings in connection with the retention of parts of the annual profit, a higher revaluation reserve, lower deduction items for deferred tax assets and for risks from pension obligations, as well as higher year-to-date IFRS profit after tax and pro rata distribution. There was an opposite effect particularly from the drop in net unrealised gains and losses on securities in the investment portfolio. The utilisation of risk capacity was down significantly as against the end of 2020 (53.9%) to 36.8%, meaning that it remains at a non-critical level. If the stress phase were to end during the year and AT1 capital were therefore no longer included in internal capital, risk capacity would be reduced and the utilisation ratio would increase, although it would remain at a non-critical level. There would be no need to adjust the risk appetite.

Utilisation of allocated risk capital was non-critical both at Deka Group level and in all business divisions. The risk appetite of €4,000m (unchanged since the end of 2020) was 51.1% utilised as at 30 June 2021 (year-end 2020: 70.5%).

Change in Deka Group risk over the course of the year *in €m (Fig. 15)*

	30 Jun 2021	31 Dec 2020	Change	
Counterparty risk	867	1,157	−290	−25.1%
Investment risk	23	20	2	10.6%
Market price risk	479	825	−346	−41.9%
Operational risk	280	279	2	0.6%
Business risk	396	541	−145	−26.8%
Total risk	**2,045**	**2,821**	−777	−27.5%

Normative perspective (current situation)

Capital adequacy is determined in accordance with the CRR. Alongside counterparty risk, market risk and operational risk, the credit valuation adjustment (CVA) risk is also taken into account.

The Deka Group's regulatory own funds as of 30 June 2021 stood at €5,981m (31 December 2020: €5,753m).

The increase in Common Equity Tier 1 capital by 5.8% to €4,694m was due primarily to the inclusion of year-end effects from 2020 (profit retention and inclusion of the risk provisions set up in 2020 in the comparison of provisions).

Tier 2 capital amounted to €813m (year-end 2020: €842m). This change was due to the reduced eligibility of Tier 2 capital instruments under the CRR in the last five years before maturity.

Risk-weighted assets fell by €591 m from the year-end 2020 figure of €31,307m to €30,716m as of 30 June 2021. As expected, credit risk increased by €2,412m as against the end of the year to €20,017m, mainly due to the first-time application of CRR II. This results in higher RWA for guarantee products due to the application of the CCF approach, as well as higher RWA due to the application of the SA CCR approach when determining the counterparty risk for derivatives. The increased credit risk was offset by a drop in market risk of €2,900m to €6,678m. This was mainly attributable to a drop in general market risk as a result of lower spread volatilities and to a drop in specific market risk resulting from the adjustment to reflect the new interpretation of the use of offsetting options in specific interest rate risk. Operational risk increased slightly by €20m to €3,505m. CVA risk came to €516m (year-end 2020: €638m).

As of 30 June 2021, the Common Equity Tier 1 capital ratio stood at 15.3% (year-end 2020: 14.2%). The Tier 1 capital ratio as of the reporting date was 16.8% (year-end 2020: 15.7%). The total capital ratio rose from 18.4% as of 31 December 2020 to 19.5% at the reporting date.

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 8.44% as at 30 June 2021. This capital requirement is comprised of the Pillar 1 minimum requirement (4.50%) plus the Pillar 2 requirement (1.5%, taking into account partial P2R coverage by Tier 2 (T2) capital, reduced to 1.125% for the Tier 1 capital ratio and Common Equity Tier 1 capital ratio), the capital conservation buffer (2.5%), the countercyclical capital buffer (as at the end of June 2021: 0.068%) and the capital buffer for other systemically important banks (0.25%). The capital requirement for the Tier 1 capital ratio (phase-in) was 9.94%. For the total capital ratio (phase-in), it was 12.32%. These requirements were clearly exceeded at all times.

Deka Group own funds *in €m (Fig. 16)*

	30 Jun 2021		31 Dec 2020	
	CRR II (without transitional provisions)	**CRR II (with transitional provisions)**	**CRR I (without transitional provisions)**	**CRR I (with transitional provisions)**
Common Equity Tier 1 (CET 1) capital	4,694	4,694	4,437	4,437
Additional Tier 1 (AT 1) capital	474	479	474	484
Tier 1 capital	**5,168**	**5,173**	**4,911**	**4,921**
Tier 2 (T2) capital	813	813	842	842
Own funds	**5,981**	**5,986**	**5,753**	**5,763**
Credit risk	20,017	20,017	17,605	17,605
Market risk	6,678	6,678	9,578	9,578
Operational risk	3,505	3,505	3,485	3,485
CVA risk	516	516	638	638
Risk-weighted assets	**30,716**	**30,716**	**31,307**	**31,307**
%				
Common Equity Tier 1 capital ratio	**15.3**	**15.3**	**14.2**	**14.2**
Tier 1 capital ratio	**16.8**	**16.8**	**15.7**	**15.7**
Total capital ratio	**19.5**	**19.5**	**18.4**	**18.4**

The leverage ratio determined in accordance with CRR II, i.e. the ratio of Tier 1 capital to total assets (leverage ratio exposure, LRE), adjusted in line with regulatory requirements, stood at 5.7% as at 30 June 2021 (year-end 2020: 5.6%). Taking account of the phase-in provisions, the leverage ratio for the Deka Group was 5.7% (year-end 2020: 5.6%). The improvement was due to the €257m increase in Tier 1 capital with a simultaneous increase in the leverage ratio exposure by €2,037 m (in line with the increase in total assets, which was offset by effects resulting from the first-time application of CRR II). The leverage ratio was at all times substantially above the minimum of 3.0% to be adhered to from June 2021 onwards.

The MREL requirements were changed to an RWA- and LRE-based calculation method in the middle of 2021. The total of own funds and MREL-eligible liabilities is expressed in relation to RWA and LRE. As at the reporting date, the MREL ratio in line with the RWA-based approach amounted to 61.6%, while the figure according to the LRE-based approach came to 21.0%. Both ratios were well above the minimum ratios that will apply as of 1 January 2022. Compared against 31 December 2020 (€19.2bn), there was a slight reduction in own funds and MREL-eligible liabilities to €18.9bn. As of the reporting date, this figure was composed of own funds of €6.0bn, senior non-preferred issues of €8.5bn, senior preferred issues of €4.3bn and unsecured subordinated liabilities of €0.2bn.

The subordinated MREL requirements were also calculated using the RWA- and LRE-based method. The total of own funds and all subordinated liabilities eligible based on statutory requirements is expressed in relation to RWA and LRE. As at the reporting date, the subordinated MREL requirements under the RWA-based approach were 44.8%, while the figure under the LRE-based approach came to 15.3%. Both ratios were well above the minimum ratios that will apply as of 1 January 2022.

Macroeconomic stress tests

Macroeconomic stress testing incorporates both the economic and normative perspectives. The in-depth analysis of the results of the macroeconomic stress scenarios in both perspectives also takes into account their probability of occurrence and lead time, as well as the possible mitigation measures available if necessary. Under this approach, the internal thresholds were complied with at all times during the reporting period and at the end of June in all the scenarios examined, and no action was required in relation to capital adequacy.

Liquidity adequacy in the first half of 2021

The Deka Group continued to have ample liquidity, measured using the liquidity balances and LCR, throughout the first half of 2021. There were no breaches of the internal limits and emergency triggers or the external minimum LCR and NSFR at any time.

The pandemic is now having no material impact on the liquidity side. The share of refinancing via commercial papers remained low compared to the overall refinancing profile. The volume of evergreen financing was at a low level to improve the ability to manage the liquidity risk position.

Economic perspective

There were clear positive liquidity balances in all relevant maturity bands of the "combined stress scenario" funding matrix for periods of up to 20 years. This was also the case for the alternative stress scenarios. Limits and emergency triggers were complied with throughout the reporting period.

As at 30 June 2021, the accumulated liquidity balance of the Deka Group's "combined stress scenario" funding matrix in the short-term range (up to one week) stood at €3.6bn (year-end 2020: €5.2bn). In the maturity band of up to one month, the liquidity surplus totalled €7.6bn (year-end 2020: €8.2bn), and in the medium range (three months) it was €10.8bn (year-end 2020: €12.0bn).

In relation to the net cash flows of approximately €0.3bn on day 1, the Deka Group has a high liquidity potential (around €3.2bn) that is readily convertible at short notice. The Group has access to a large portfolio of liquid securities which are eligible as collateral for central bank borrowings, as well as to available surplus cover in the cover pool and corresponding repo transactions. The strict requirements concerning the liquidity potential ensure that the securities used for this purpose can generate liquidity even in a stressed market environment.

"Combined stress scenario" funding matrix of Deka Group as at 30 June 2021 *in €m (Fig. 17)*

	D1	>D1 to D5	>D5 to 1M	>1M to 3M	>3M to 12M	>12M to 5Y	>5Y to 20Y	>20Y
Liquidity potential (accumulated)	3,229	3,125	5,188	6,029	−1,221	−356	−75	−5
Net cash flows from derivatives (accumulated)[1]	−230	24	1,647	3,069	3,827	2,638	2,127	2,115
Net cash flows from other products (accumulated)	518	416	775	1,701	10,986	9,577	980	−2,812
Liquidity balance (accumulated)	**3,516**	**3,564**	**7,609**	**10,799**	**13,593**	**11,859**	**3,033**	**−701**
For information purposes:								
Net cash flows from derivatives by legal maturity (accumulated)[1]	−230	−233	−250	−192	−272	−486	−851	−1,245
Net cash flows from other products by legal maturity (accumulated)	−3,145	−3,631	−9,663	−13,359	−11,388	−4,580	−4,949	−639
Net cash flows by legal maturity (accumulated)	**−3,375**	**−3,864**	**−9,914**	**−13,551**	**−11,659**	**−5,066**	**−5,800**	**−1,885**

[1] Including lending substitute transactions and issued CLNs

As at 30 June 2021, repo transactions, overnight and time deposits and other money market products accounted for 57.3% of total refinancing (year-end 2020: 52.2%). The remainder of the refinancing concerned capital market products, primarily with longer maturity profiles. The refinancing profile for lending business was well balanced, given the maturity structure.

The coronavirus crisis has resulted in a change in the refinancing profile. The proportion of refinancing from other banks has declined, while refinancing via funds has increased. The volume of money market refinancing via commercial papers increased, but is still at a very low level.

Normative perspective
The regulatory LCR requirements were met throughout the period under review. In percentage terms, the increase in net cash outflows was greater than that in holdings of high-quality, liquid assets. This resulted in a reduction in the liquidity coverage ratio at Deka Group level compared to 31 December 2020. The LCR as at 30 June 2021 stood at 149.7% (year-end 2020: 185.6%). The average during the first half of 2021 was 166.1% (average for H1 2020: 164.8%). The LCR fluctuated within a range from 149.1% to 198.8%. It was thus always substantially above the minimum limit of 100.0% applicable in 2021.

The net stable funding ratio (NSFR) came to 118.5%, meaning that, at the end of June, it was substantially above the minimum limit of 100% applicable as of June 2021. The ratio expresses available stable funding in relation to required stable funding. The NFSR is thus designed to ensure stable long-term funding for assets in relation to their degree of liquidity. A period of one year forms the basis for the assessment.

Both perspectives (macroeconomic stress tests)
The internal thresholds were complied with in both perspectives at all times, even in the macroeconomic stress testing.

Individual risk types

Counterparty risk
Current risk situation
Counterparty risk, as determined on the basis of the credit value at risk (CVaR) with a confidence level of 99.9% and a holding period of one year, fell significantly in the first half of 2021 to €867m (year-end 2020: €1,157m). Risk capital allocated to counterparty risk stood at €1,595m (year-end 2020: €1,630m) and was 54.4% utilised (year-end 2020: 71.0%). The level of risk capacity utilisation therefore remained non-critical.

The risk development was due primarily to portfolio optimisation measures in the Capital Markets business division and in the Treasury corporate centre. In addition, the positive market development that had already started to emerge at the end of 2020, despite the ongoing COVID-19 crisis, continued in the first half of the year and led to a stabilisation in risk premiums, prompting a further reduction in risk.

The risk position of the cluster portfolio was assessed using an expected shortfall redistribution. The result was a significant decrease in absolute terms compared with the end of 2020. The relative share of the cluster portfolio in the overall portfolio also decreased slightly. Risk concentration remained in line with the Deka Group's credit risk strategy.

Gross loan volume increased moderately by 6.8% as against the end of 2020 (€120.2bn) to reach €128.3bn. A significant portion of the increase related to the financial institutions risk segment, which was affected in particular by the increased deposits with the Bundesbank and increased repo lending volumes. In the funds risk segment, the gross loan volume increased due to more securities issued as collateral as part of borrowing transactions and also due to increased fund units. The reduction in gross loan volume also came partly from market fluctuations from interest rate derivatives and fewer promissory note loans in the savings banks risk segment. A lower risk from bond volumes in the Public sector International and Public sector Germany risk segments also had the effect of reducing the gross loan volume. The lending business volume comprising various, predominantly collateralised infrastructure, transport, export and real estate financing was down on the level seen at the end of 2020. The ship portfolio's share of gross loan volume fell slightly to 0.7% (year-end 2020: 0.8%). The aircraft portfolio had a share of 2.0% (year-end 2020: 2.4%). In connection with the COVID-19 crisis, the transport loan portfolio in particular is being closely followed and monitored on an ongoing basis.

Gross loan volume *in €m (Fig. 18)*

	30 Jun 2021	31 Dec 2020
Financial institutions	68,480	56,700
Savings banks	6,523	7,434
Corporates	9,075	9,010
Public sector International	3,393	4,948
Public sector Germany	9,970	11,690
Transport and export finance	4,791	5,272
Property risks	10,606	10,417
Funds (transactions and units)	11,456	10,721
Other	4,003	3,962
Total	**128,296**	**120,155**

Net loan volume increased by 10.8% as against the end of 2020 (€61.0bn) to reach €67.6bn. This was because the increase in business volume resulted in higher deductions for secured lending when converting from gross to net loan volume. This mainly reflected the offsetting of reverse repo transactions, especially as a result of the increased volume of reverse repos in the financial institutions risk segment, the netting of lending transactions (due to their increased volume in the funds risk segment) and the offsetting of credit derivatives (due to their decreased volume in the Public sector International and Public sector Germany risk segments). Increased deposits with Deutsche Bundesbank in the financial institutions risk segment had the effect of increasing the net loan volume. There was also a decline in volume in the savings bank financing segment, which was also visible after netting.

Net loan volume *in €m (Fig. 19)*

	30 Jun 2021	31 Dec 2020
Financial institutions	31,618	23,245
Savings banks	6,336	7,232
Corporates	3,580	3,927
Public sector International	1,176	1,294
Public sector Germany	9,519	10,360
Transport and export finance	605	682
Property risks	2,611	2,644
Funds (transactions and units)	8,134	7,660
Other	4,003	3,962
Total	**67,583**	**61,005**

The gross loan volume in the eurozone rose by a total of €12.8bn. This was due to increased deposits with Deutsche Bundesbank, an increase in repo transactions with counterparties in Germany and France and an increased lending volume in Germany and Luxembourg. As a result, the percentage of gross loan volume increased from 72.5% at the end of 2020 to 77.9%.

The volume movements in the EU countries outside the eurozone, as well as in the OECD excluding the EU, resulted primarily from the UK's exit from the EU, as well as reduced reverse repo transactions with capital market counterparties that shifted their business from the UK to Germany. In addition, the increase in the OECD countries was also due to greater exposure to securities lending with Swiss counterparties.

Gross loan volume by region *in €m (Fig. 20)*

	30 Jun 2021	31 Dec 2020
Eurozone	99,967	87,165
EU excluding eurozone	987	16,848
OECD excluding EU	24,307	13,096
International organisations	161	24
Other countries	2,875	3,023
Total	**128,296**	**120,155**

The gross loan volume attributable to Germany increased by €12.1bn to €64.4bn and equated to a proportion of 50.2% at the mid-year point. In the eurozone, €14.1bn or 11.0% of the gross loan volume was attributable to counterparties in Luxembourg. Counterparties in France accounted for 7.0% of the gross loan volume, and counterparties in Belgium accounted for 5.1%.

The gross loan volume relating to borrowers in Spain and Italy fell to €2.6bn, from €3.3bn at the end of 2020. The collateralising effect of repo transactions meant that the net loan volume attributable to borrowers in Italy was lower than the gross loan volume. As a result of both the collateralising effect of repo transactions and the derivative collateralisation of the bond portfolio, the net loan volume attributable to borrowers in Spain was less than the gross loan volume.

Gross loan volume by regional concentration *in €m (Fig. 21)*

	30 Jun 2021	Percentage of Gross loan volume
Germany	64,448	50.2%
Luxembourg	14,110	11.0%
United Kingdom	10,931	8.5%
France	9,036	7.0%
Belgium	6,512	5.1%
Spain	1,939	1.5%
Netherlands	1,255	1.0%
Italy	709	0.6%
Other	19,357	15.1%
Total	**128,296**	**100.0%**

The gross loan volume remained focused primarily on the short-term segment. The proportion of transactions with a time to maturity of less than one year was 40.2% at the end of the first half of 2021 (year-end 2020: 41.2%). The proportion of maturities longer than ten years was 6.6%, compared with 8.9% at 31 December 2020. The average legal residual term of gross lending was down to 3.3 years (year-end 2020: 3.9 years) mainly due to the increased deposits with Deutsche Bundesbank.

The level of risk concentration in the loan portfolio fell slightly during the first half of 2021. As at 30 June, 16.3% (year-end 2020: 19.9%) of total gross loan volume was attributable to borrower units with a gross limit of at least €2.5bn or an overall net limit of at least €1.0bn (counterparty clusters). The number of counterparty clusters was down as against the end of 2020 from two to 26. As part of the adjustment to the credit risk strategy for 2021, the allocation of counterparty clusters to new risk segments and their limit guidelines were adjusted. Of the gross loan volume attributable to the cluster portfolio, 34.3% related to public sector counterparties, savings banks, and government-related and supranational institutions. A total of 15.3% of net loan volume related to counterparty clusters (year-end 2020: 20.4%).

As was already the case at the end of 2020, shadow banking entities under the principal approach (limit utilisation of total net risk position: 35%) accounted for less than 1% of the net loan volume as at the 30 June 2021 reporting date. For shadow banking entities under the fallback approach, this share was virtually 0%. The utilisation figures are considered acceptable, especially given that the shadow banking entities have an average rating of "A–" on the DSGV master scale.

Over the reporting period, the average rating for the gross loan volume deteriorated by one notch to a rating of 4 on the DSGV master scale. The average probability of default rose to 26 bps (year-end 2020: 20 bps), which was due to deteriorating credit ratings for a central counterparty and for high-volume counterparties in the financial institutions risk segment as well as for various aircraft, ship, real estate and aviation companies, partly as a result of the COVID-19 pandemic. The average rating for the net loan volume remained stable at "A–" with a virtually unchanged average probability of default of 9 bps (year-end 2020: 10 bps).

Net loan volume by risk segment and rating *in €m (Fig. 22)*

	Average PD in bps	Ø-Rating 30 Jun 2021	30 Jun 2021	Average PD in bps	Ø-Rating 31 Dec 2020	31 Dec 2020
Financial institutions	4	AA–	31,618	6	A	23,245
Savings banks	1	AAA	6,336	1	AAA	7,232
Corporates	16	3	3,580	17	3	3,927
Public sector International	3	AA	1,176	3	AA	1,294
Public sector Germany	1	AAA	9,519	1	AAA	10,360
Public infrastructure	18	3	860	14	2	936
Transport and export finance	231	9	605	159	8	682
Energy and utility infrastructure	41	5	2,983	46	5	2,822
Property risks	22	4	2,611	11	2	2,644
Retail portfolio	0	0	161	0	0	204
Funds (transactions and units)	12	2	8,134	11	2	7,660
Total	**9**	**A–**	**67,583**	**10**	**A–**	**61,005**

The Bank continues to achieve its target rating of investment grade (5 or better) for the portfolio as a whole without difficulty, with regard to both its gross and net loan volume. 92.6% of net loan volume remained in the same grouping (determined by rating class) as at the end of 2020.

Market price risk

Current risk situation

Market price risk at Deka Group level (measured using VaR with a confidence level of 99.9% and a holding period of one year) fell significantly compared with the position as at the end of 2020 (€825m) to €479m. The strong decrease was primarily attributable to a lower risk from guarantee products. This was due to a significant increase in interest rates in the first quarter and a positive trend on the stock markets.

Utilisation of the allocated risk capital for market price risk stood at €1,300m (year-end 2020: €1,255m). This represents a non-critical utilisation level of 36.8%.

Market price risk for the Deka Group (excluding guarantees) as at 30 June 2021 was €48.3m (year-end 2020: €51.9m), measured as the VaR with a confidence level of 99.0% and a holding period of ten days. The portfolio optimisation measures taken in response to developments in connection with the coronavirus crisis achieved the intended effect. As the situation on the financial markets has calmed down, the COVID-19 crisis is no longer having any direct impact on market price risk. Should another wave of the pandemic emerge, triggering renewed fluctuation on the financial markets, then market price risk would also be expected to increase again. At the same time, the portfolio optimisation measures mean that the risk position is less susceptible to market crises.

Utilisation of the operational management limit at Deka Group level (excluding guarantees) stood at €88.0m as of the reporting date. This represented an utilisation level of 55% and was therefore non-critical.

Deka Group value-at-risk excluding guarantee products[1] (confidence level 99%, holding period ten days)
in €m (Fig. 23)

	30 Jun 2021						
Category	**Asset Management Securities business division**	**Asset Management Real Estate business division**	**Asset Management Services business division**	**Capital Markets business division**	**Treasury**	**Deka Group excluding guarantees**	Change in risk vs 31 Dec 2020
Interest rate risk	4.2	0.0	4.6	11.1	36.6	48.5	−7.7%
Interest rate (general)	0.7	0.0	4.2	5.1	6.1	8.2	−28.1%
Credit spread risk	4.0	0.0	2.4	10.6	38.4	49.5	−8.0%
Share price risk	0.6	0.2	0.4	7.0	2.4	6.4	0.0%
Currency risk	0.2	0.0	0.0	0.6	9.5	10.0	89.7%
Total risk	**4.1**	**0.2**	**4.6**	**13.6**	**38.0**	**48.3**	−6.9%

[1] Risk ratios for interest rate risk and total risk, taking account of diversification. Includes issue-specific credit spread risk.

The VaR for general interest rate risk (excluding risks on guarantee products) decreased from €11.4m at year-end 2020 to €8.2m. The reduction began in the first quarter with a tighter management of risk (adjustments to hedges).

The VaR for credit spread risk fell to €49.5m on the reporting date (year-end 2020: €53.8m). The slight drop was due to a reduction in bond positions. In line with the business model, risk concentration in terms of credit spread risk was mainly attributable to German and US bonds issued by the public sector, financial institutions and corporates.

At €6.4m, share price risk was unchanged as against the 2020 year-end level and thus remained less significant.

Currency risk rose from €5.3m at the end of 2020 to €10.0m in the reporting period. The increase resulted from the adjustments in connection with the LIBOR changeover. At the reporting date, the currency risk was attributable primarily to positions in US dollars and pound sterling and, like the share price risk, was of minor significance.

Operational risk

Current risk situation

The VaR for operational risk (confidence level of 99.9%, holding period of one year) increased only marginally from €279m at year-end 2020 to €280m. The slight increase in risk resulting from the reassessment of various loss scenarios was almost completely offset by a relatively small number of newly or retrospectively recorded loss events. In the context of the COVID-19 pandemic, updated costs for additional protective and disinfection measures, as well as for the provision of face masks and self-testing kits to employees, are particularly worthy of note. In addition, effects that had previously been taken into account, with the effect of reducing losses, were no longer included in the quantification in line with the requirements on the treatment of the various cost components set out by the EBA at the end of the previous year. Risk capital allocated to operational risk stood at €350m (year-end 2020: €335m). Utilisation of this amount was 80.1%. Utilisation thus remains at a non-critical level.

The OR loss potential calculated as part of the Group-wide risk survey increased to €72m (year-end 2020: €66m) due to newly included loss scenarios, for example in connection with the first-time inclusion of the subsidiary IQAM Invest GmbH, and also due to updates to various existing risk assessments. There was no need for any additional adjustments in connection with the COVID-19 pandemic, as related aspects were given extensive consideration in the previous year. As things currently stand, there is no reason to expect any increased risk profile in this context in the future either, as the Deka Group has adapted to the new working situation through various measures and the projections already reflect the changes in the cost structure.

On 15 July 2021, a revised Federal Ministry of Finance (BMF) circular dated 9 July 2021 was published on the tax treatment of share trades transacted around the dividend record date. Compared to the original BMF circular dated 17 July 2017, this BMF circular sets out more specific details regarding the requirements for relief from capital yields tax (*Kapitalertragsteuer*), as well as with regard to the legal consequences in the event of a refusal by tax authorities to allow relief for share trades transacted around the dividend record date. Based on the revised BMF circular of 9 July 2021 on the tax treatment of cum/cum transactions, tax risks exist in connection with relief from capital yields tax on share transactions made around the dividend record date in the years 2013 to 2015. All matters are reported in the interim report as at 30 June 2021 in accordance with DekaBank's interpretation of the relevant tax regulations and accounting standards.

In addition, DekaBank has begun voluntary investigations to ascertain whether its involvement enabled third parties to conduct share trades around the dividend record date and make use of abusive tax structures or whether it was otherwise involved in such structures. Based on the findings available to it, DekaBank considers it unlikely that the tax authority will be able to make a claim in relation to these matters beyond what has been recognised in the financial statements as at 30 June 2021.

Business risk

The VaR of business risk was €396m as at 30 June 2020, significantly lower than the level of €541m at the end of the previous year. The reduction in risk was due predominantly to lower volatilities against the backdrop of the market recovery following the coronavirus crisis, with effects in the Asset Management Securities, Asset Management Services and Capital Markets business divisions. This meant that the allocated risk capital, which was reduced to €725m (year-end 2020: €750m), was 54.6% utilised. Should the COVID-19 pandemic flare up again and trigger increased market volatility, it would be impossible to rule out a renewed increase in business risk. A comprehensive revamp of the model for quantifying business risk is currently under way, with the revised model expected to go live for the Asset Management Securities business division at the end of August 2021. The revised model has a refined and, as a result, more accurate modelling system at its core, making it possible to replace some of the conservative assumptions that are implemented at present. As a result, we currently expect to see a reduction in risk.

Further risks

Investment risk

The VaR of investment risk was €23m at 30 June 2021 and was therefore up slightly on the level of €20m at the previous year-end. The reason for the slight increase in risk was the increase in the IFRS carrying value of an equity investment as a result of the current fair value measurement in accordance with IFRS 9 as part of the regular remeasurement of equity investments at mid-year. The risk capital allocated to investment risks remained unchanged at €30m, with utilisation of 75.1%. The COVID-19 pandemic did not have any major impact on investment risk, and no such impact is expected based on the information available at present.