The efficiency aspect mainly includes optimisation and consolidation measures to boost efficiency and reduce costs. The Deka Group is using various measures to ensure it performs its services efficiently and thus with lasting competitiveness. Efficiency measures forming part of DekaPro are designed to handle a growing volume of business and to manage challenging regulatory requirements with an appropriate level of expenditure.

Awards and sustainability

During the reporting period, confirmation of the high quality of Deka's asset management came, among other things, in the form of the "€uro Fund Award 2019" and the maximum five-star rating in the 2019 Fonds-Kompass awards organised by the business magazine Capital. What is more, Deka Immobilien was once again awarded the title of best asset manager in the "Retail Real Estate Europe" category of the Scope Alternative Investment Awards. The high quality of the Deka Group's certificates was confirmed with the "Market leader for certificates in Germany" award.

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

The sustainability strategy, which forms part of the overall business strategy, is being developed on an ongoing basis to reflect the EU action plan on financing sustainable growth. Deka once expanded its sustainability reporting for the 2018 reporting year and issued the non-financial statement required under the German CSR Directive Implementation Act (*CSR-Richtlinie-Umsetzungsgesetz*) as part of its detailed Sustainability Report for 2018. The annual sustainability report, including the non-financial statement, does not form part of the Group management report. In accordance with the statutory publication deadlines, the 2018 sustainability report was published on time at the end of April 2019 on the Deka Group website (https://www.deka.de/deka-group/sustainability), where it will remain accessible for at least ten years.

The Deka Group continues to be rated as "very good" by sustainability rating agencies. In the first half of the year, MSCI maintained our AA rating and ISS-oekom our C+(Prime) rating in spite of new, stricter requirements. As far as the ratings awarded by the rating agency "imug rating" are concerned, Deka was also able to improve its issuer rating and the rating for the public sector *Pfandbriefe* by one notch to BB and BBB respectively.

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Economic environment

Compared with 2018, the economic environment for asset management improved considerably over the reporting period. The first few months of 2019 were characterised by a strong recovery on the global stock markets. This was driven by two factors in the main: first of all, the fears of a trade war and of a marked economic slump in China, which had put the stock markets under pressure at the end of 2018, eased considerably. The postponement of the United Kingdom's planned exit from the EU from the end of March to the end of October also helped to reduce the risk perceived on the financial markets, as concerns that political decisions could lead to a disorderly Brexit were alleviated significantly. Second, the major central banks took a much more moderate stance throughout the first half of 2019.

The prospect of a less pronounced tightening of monetary policy boosted confidence among many market participants that the global upswing could continue for some years to come. With risks perceived to be lower and stock markets rising, there was a general drop in yields on long-dated government bonds. China loosened both its monetary and fiscal policy. The impression that there remains considerable leeway for infrastructure spending and tax cuts put into perspective the fear that China could trigger a major slowdown in the global economy.

The banking business was once again hit by the continuation of expansionary monetary policy in the eurozone. The European Central Bank increasingly pointed to the weak inflation trend, expressing concern about the economic outlook. From May onwards, the picture on the capital markets deteriorated considerably. This trend was triggered, yet again, by US trade policy. While the majority of investors were expecting constructive talks between the US and China, President Trump took them by surprise by increasing protective tariffs from 10% to 25%. China reacted immediately with retaliatory measures. The conflict is now no longer limited to the issue of customs duties. Action against individual technology companies and supply boycotts for key raw materials have also been threatened, meaning that the impact on the global economy is unpredictable. The fiscal policy conflict between the Italian government and the European Commission was also a source of renewed unrest. A global slowdown in growth due to the political uncertainty would present central banks with serious challenges. After all, they are already struggling with low inflation rates and flagging inflation expectations. This has prompted market participants to revise their expectations regarding the monetary policy stance. They now expect both the Fed and the ECB to cut their key rates. This pushed the yield on ten-year German government bonds down to new all-time lows in June.

Macroeconomic conditions

In the first half of 2019, the global economic growth rate of around 3% was down on the 3.7% full-year growth rate for 2018. The marked differences between the manufacturing sector and other sectors of the economy were striking. The industrial sector has been hit particularly hard by the global trade conflicts. It is not only feeling the direct impact of the trade policy measures that have actually been implemented. Rather, fears of an even greater wave of protectionism are also weighing on corporate sentiment and hampering investment activity in the corporate sector. The resulting drop in demand is also affecting industry to a considerable extent. On the other hand, those sectors that are more focused on domestic demand have proved resilient so far. This has been helped first and foremost by the positive development on the labour markets, which has provided an important basis for consumer spending. In both Germany and the US, unemployment rates have fallen to levels that have not been seen for some time (since 1969 in the case of the US).

Despite the marked drop in unemployment, however, wage growth has so far remained subdued during this upswing. This, among a number of other factors, contributed to the low inflation level. As a result, the central banks' inflation targets are gradually losing credibility. Investors are therefore not only expecting key rate cuts over the next few years, but are also preparing for lower interest rate levels longer term. This was one of the reasons why yields on long-dated government bonds fell further in the period under review.

Economic environment for asset management

The global capital markets showed a marked recovery in the first half of 2019. The MSCI World Index gained around 16%, with the S&P 500 touching on new all-time highs. With an increase of around 17%, the German share index DAX achieved the second-highest gain ever seen for a January – June period. In the key bond segments, too, the prices of government and corporate bonds were on an upward trajectory, resulting in performance of between 4% and 8%.

The positive market performance seen in 2019 to date was also reflected in the investment statistics of the German Investment Funds Association BVI. Total net assets increased by 9% in the first six months of 2019. Net assets in open-ended mutual funds amounted to €1,053.0bn as at 30 June 2019 (year-end 2018: €973.6bn). At €–1.8bn, net inflows into open-ended mutual funds fell considerably short of the figure seen in the same period of the previous year (€11.4bn). Equity funds once again posted a positive result with net inflows of €0.7bn. However, this did not come close to the previous year's €1.8bn. Bond funds, in particular, saw significant net outflows. In contrast to retail funds, open-ended special funds for institutional investors almost reached the sales figure seen in the same period of the previous year. Demand for open-ended mutual property funds showed significantly positive development in the first six months of 2019, with net sales of €6.1bn as against €2.8bn in the same period of the previous year.

Real estate funds still offer an attractive risk/reward ratio in the current interest rate environment. Given high real estate prices and limited availability of suitable properties, however, the investment opportunities open to real estate funds remain limited. This is restricting their ability to attract new investor funds, particularly given that it is not possible to generate positive margins from liquidity investments. Even though the overall economic picture deteriorated in the first half of 2019, the robust labour market continued to provide important support. Demand for office properties remains high, but is limited by the inadequate supply of available space in many locations. Declining vacancy rates pushed rents up further. Yields continued to decline slightly in European markets. The global transaction volume was slightly below the previous year's level in the first half of 2019. While less was invested in Europe and North America, the Asia/Pacific region saw an increase in investment turnover.

Economic environment for the banking business

The banking business continued to be characterised by negative money market rates and dwindling yields on long-dated German government bonds. As announced well in advance, the ECB discontinued its net asset purchases at the end of 2018. As the ECB/Deutsche Bundesbank has to reinvest proceeds from maturing bonds until further notice and the budget surpluses of the German federal government are resulting in lower gross supply, the relative scarcity of German government bonds, in particular, continues to increase over time. In addition, the anticipated further easing of monetary policy has increased the demand for longer-dated Bunds with what are still comparatively higher yields. Consequently, mounting economic downside risks and falling long-term inflation expectations led to a further flattening of the Bund curve.

Government bonds issued by peripheral eurozone countries generally reaped the benefits of the low interest rates and the resulting intensive search for yields. Italian bonds were an exception to the rule. Due to its budgetary policy, the populist government has the threat of an EU excessive deficit procedure hanging over it, possibly also involving downgrades by the rating agencies. This caused the risk premiums of Italian sovereign bonds over German government bonds (spreads) to fluctuate, with their yields only charting a clear downward course towards the end of the first half of the year.

Fixed-income securities issued by private banks and the corporate sector have been showing very positive performance since the beginning of the year. Concerns that the missing ECB purchases would have a negative impact on the market had already been priced in in the fourth quarter of 2018 and have now been replaced by hopes of renewed monetary policy support. Corporate bonds, as well as covered bank bonds, recovered from the significant widening of spreads in the previous year. With the prospect of a prolonged period of extremely low interest rates, even low risk premiums became increasingly appealing. As Bund yields and swap rates also fell at the same time, many yields on corporate bonds with short maturities and covered bonds with short to medium maturities slipped into negative territory. New issues, particularly with comparatively attractive risk premiums, continued nevertheless to attract high demand.

There were no significant changes in the market environment for the financing business compared to 2018. The overall conditions for aircraft and infrastructure financing were stable on the whole. A slight reduction in structural excess capacity is emerging on the shipping markets. Potential in terms of margins remained limited, however, as strong competition from banks and institutional investors for attractive credit assets meant that borrowers could continue to negotiate favourable and borrower-friendly terms. With a large number of competitors from the banking and non-banking sectors alike, the market for real estate financing remained extremely competitive in the first six months of 2019. With the exception of the markets for retail properties, the real estate markets in the relevant regions, such as Europe, the US and Canada, developed positively and offered attractive financing opportunities.

Regulatory environment

The regulatory environment changed only slightly compared with the situation presented in the 2018 Group management report. Higher capital requirements for banks could emerge from the results of the annual Supervisory Review and Evaluation Process (SREP), including in the context of the supervisory review of the internal models under Pillar 1 of the Basel capital framework, for example. Information on the main regulatory issues relevant to the Deka Group is set out below.

In the EU, the reform of the Capital Requirements Regulation II (CRR II) and Capital Requirements Directive V (CRD V) was completed in the six months under review. The final legislative texts were published in June 2019. The reform of the CRR primarily implements the proposals put forward by the Basel Committee (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. These regulations will generally be applied for the first time in June 2021.

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

The European capital and liquidity requirements were revised to tighten up the rules on large exposures, forcing more restrictive handling of large exposure risks. The large exposure limit will no longer be set according to the level of total own funds but instead according to the level of 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 addition, when collateral is accepted, the collateral provider or issuer of the financial collateral is required to take the loan into account in their large exposure limit. This could have an impact on repo lending business activities. First-time application is scheduled for the end of June 2021.

The provisions of the Basel III regulations finalised in December 2017 (also known as "Basel IV"), which contain, among other things, rules on the output floor and Credit Risk Standardised Approach (CRSA), are not included in CRR II. The Basel Committee intends these rules to be introduced as from 1 January 2022. A timetable for implementation at EU level is not yet known. More specifically, the gradual introduction of an output floor is planned. This will stand at 50% upon introduction at the beginning of 2022 and increase to its final level of 72.5% in 2027. The output floor will limit the benefit of internal models as compared to the standardised approach. DekaBank currently uses the IRB approach for the majority of its lending. For the general components of interest rate and share price risk, it uses an up-to-date internal model for market price risk. It will therefore be particularly affected by the new output floor rules, which may lead to a significant rise in RWAs going forward. In addition, and also with first-time application starting in 2022, new rules for calculating the RWA for the CVA (credit valuation adjustment) risk and operational risk have been adopted; these could also increase RWAs. Alongside the EU Capital Requirements Regulation, the EU Council also agreed on amendments to the Bank Recovery and Resolution Directive (BRRD II) and the Single Resolution Mechanism Regulation (SRMR II). These primarily concern the transposition of international standards on loss-absorbing capacity into European law (TLAC) and their harmonisation with the minimum requirements for own funds and eligible liabilities for loss absorption and recapitalisation in the event of resolution (MREL). Within this context, the trilogue negotiation partners reached an agreement on the treatment of MREL-eligible liabilities issued prior to the change in legislation until maturity. As the Single Supervisory Mechanism (SSM) applies to the Deka Group, DekaBank again supported the work on a resolution plan for the Deka Group during 2019, which will ultimately be the basis for determining MREL.

In March 2018, the ECB published an addendum to the ECB guidance to banks on non-performing loans, detailing its expectations regarding the level of prudential provisioning for all loans classified as non-performing exposures (NPEs) for the first time after 1 April 2018. The expectations set out in the document will serve as the basis for an annual supervisory dialogue. Specifically, the addendum provides for full risk coverage for unsecured (secured) NPEs after two (seven) years from the time of NPE classification. 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 concerning the minimum loss cover for non-performing exposures was published in the EU Official Journal on 25 April 2019, thereby entering into force. This provides for a mandatory deduction from the Common Equity Tier 1 capital if the actual risk provisions set up by the institutions fall short of the regulatory minimum requirements for the level of risk provisioning.

Between early March and the end of May 2019, the ECB conducted an EU-wide stress test focusing on liquidity risks at major institutions, including DekaBank. The institutions were later provided with information on the results, which will be included in the calculation of the relevant capital and liquidity ratios for 2020 as prescribed by the regulator as part of the Supervisory Review and Evaluation Process (SREP).

Business development and profit performance in the Deka Group

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

In the first half of 2019, the Deka Group generated an economic result of €223.1m, on a par with the previous year's level (€222.6m). Net interest income, net commission income and net financial income exceeded the values achieved in the same period of the previous year. The risk provisioning result developed in line with expectations. Actuarial losses affecting provisions for pensions, however, put considerable pressure on other operating profit due to interest rates that were at an all-time low. All in all, the Deka Group increased its income by 4.6% to €771.4m (H1 2018: €737.8m). Expenses of €548.3m were 6.4% above the level seen in the first half of 2018 (€515.1m).

In the first six months of 2019, the Deka Group achieved net sales of €6.7bn. This figure was down on the same period of the previous year due to slowing sales momentum (€10.6bn). In retail banking, the investment fund business fell short of the figure for the first half of 2018 (€3.6m) at €1.6bn. Customers adopted a more cautious approach in light of the high levels of market volatility seen in 2018. This was also reflected in the sale of bond funds and mixed funds, as well as in fund-based asset management. Equity funds and mutual property funds made gains compared with the same period of the previous year. At €1.5bn, net sales in the institutional investment fund business lagged behind the figure for the same period of the previous year (€2.7bn). Net sales of certificates amounted to €3.6bn (H1 2018: €4.2bn). At just shy of €2.8bn, retail customers accounted for the lion's share of demand (H1 2018: €3.0bn). Net sales to institutional customers came to €0.8bn (first half of 2018: €1.2bn).

Total customer assets were up by around 8% as against the end of 2018 to €297.7bn. In addition to sales, this was primarily attributable to the positive performance witnessed in the course of the year. This trend was partially offset by distributions to investors and maturing certificates.

Deka Group total customer assets *in €m (Fig. 1)*

	30 Jun 2019	31 Dec 2018	Change	
Total customer assets	**297,667**	**275,878**	21,789	7.9%
by customer segment				
Retail customers	149,045	137,169	11,876	8.7%
Institutional customers	148,622	138,709	9,913	7.1%
by product category				
Mutual funds and fund-based asset management	146,717	137,249	9,468	6.9%
Special funds and mandates	119,435	109,585	9,850	9.0%
Certificates	22,339	20,443	1,896	9.3%
ETFs	9,175	8,602	573	6.7%

See also: Overall risk position for the first half of 2019: pages 32, ff

Utilisation of risk appetite rose by 4.4 percentage points to 71.7% at the end of the first half of 2019 as a result of the moderate increase in total risk. Utilisation of risk capacity was also noticeably below the level seen at the end of 2018 (42.1%), coming in at 58.5%. This was due primarily to a significant drop in risk capacity to €4,597m as at 30 June 2019 (year-end 2018: €5,920m). This development can be traced back primarily to the fact that subordinated capital components are no longer eligible as a result of the further development of the risk-bearing capacity concept in methodological terms. Economic risk-bearing capacity was at a non-critical level overall as at 30 June 2019.

The Deka Group's financial position remains robust. The fully loaded Common Equity Tier 1 capital ratio (calculated in accordance with CRR/CRD IV requirements) stood at 15.2% at the midpoint of 2019, compared with 15.4% at the end of 2018. The slight increase in Common Equity Tier 1 capital by around 3% to €4,575m was due to effects resulting from the 2018 annual financial statements, especially reinvestments. At the same time, risk-weighted assets showed a moderate increase of around 4% to €30,191m.

The fully loaded leverage ratio stood at 4.5% at 30 June 2019, above the minimum ratio of 3.0% to be observed from June 2021.

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 8.94% as at 30 June 2019. This capital requirement is made up of the Pillar 1 minimum requirement (4.5%) plus the Pillar 2 requirement (1.25%), the capital conservation buffer (2.50%), the countercyclical capital buffer (approximately 0.19% at 30 June 2019) and the capital buffer for other systemically important banks (0.50%). The capital requirement for the total capital ratio with transitional provisions (phase-in) was 12.44%. Both requirements were clearly exceeded at all times.

The liquidity coverage ratio (LCR) was 137.9% at mid-year, well above the minimum requirement of 100%.

Profit performance of the Deka Group

The economic result stood at €223.1m, on a par with the level achieved in the first half of 2018 (€222.6m). Total income rose by 4.6% to €771.4m (H1 2018: €737.8m). At €548.3m, total expenses were up by 6.4% on the level seen in the first half of 2018 (€515.1m).

Net interest income of €97.5m was considerably higher than in the first half of 2018 (€77.6m). Key components of net interest income were earnings from specialised and real estate financing in the Financing business division, as well as earnings from the Strategic Investments unit in the Capital Markets business division. These earnings were above the level for the same period of 2018.

Risk provisions in the lending and securities business amounted to €–11.4m in the first half of 2019, in line with expectations (H1 2018: €15.4m). Of this, €–10.0m (H1 2018: €5.9m) was attributable to lending business and €–1.5m (H1 2018: €9.5m) to securities.

Net commission income came to €591.4m (H1 2018: €563.9m) and thus made up almost 80% of total income. Commission from investment fund business rose primarily due to an increase in portfolio-based commissions in the first half of 2019. Commission income from banking was down slightly on the first half of 2018. Commission income from custody account business was on a par with the previous year's level.

Net financial income was €148.0m, substantially above the figure for the first half of 2018 (€96.5m). 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 €120.9m, net financial income from trading book portfolios was lower than in the same period of the previous year (€139.4m). A key component was income from the Trading & Structuring unit, which was, however, moderately down on the comparative figure for 2018. Collateral Trading & Currency also made a smaller contribution to earnings.

Net financial income from banking book portfolios was €27.2m (H1 2018: €–43.0m). This was essentially due to positive valuation effects on securities in the wake of spread movements in the first half of 2019. In the first half of 2018, spread developments still had a negative impact on earnings. The figure for the previous year reflects the fact that an amount of €30m was released from the general provision for potential risks. 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 amounted to €–54.1m (H1 2018: €–15.5m). Actuarial losses of €–57.4m on pension provisions owing to a market-induced fall in the actuarial interest rate to 1.15% (year-end 2018: 1.90%) had a negative impact. This effect was only partially offset by the increase in plan assets. In the same period of the previous year, actuarial losses of €–12.2m 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 showed a moderate increase to €269.1m (H1 2018: €260.3m). Compared to the same period of the previous year, expenses were pushed up by an increase in the workforce and wage and salary increases as a result of the collective bargaining rounds.

Other administrative expenses, which are presented inclusive of depreciation in connection with the application of IFRS 16 from 2019 onwards, amounted to €218.9m (H1 2018: €214.3m). While marketing and sales expenses, among other things, were below the comparable figure for the first half of the previous year, expenses for consultancy, computer equipment and machinery, as well as postage/telephone/office supplies were higher than in the previous year. At €26.4m, depreciation and amortisation charges were up considerably on the figure for the same period of 2018 (€9.2m), as was expected. This increase was due to depreciation reported in this item from 2019 onwards due to the recognition of leases in accordance with IFRS 16 (mainly for buildings).

The full annual contribution to the deposit protection reserve of the *Landesbanken* and *Girozentralen* amounted to €17.2m (H1 2018: €11.0m). The annual charge in relation to the European bank levy was also recognised in full and came to €40.4m (H1 2018: €29.6m).

Deka Group profit performance *in €m (Fig. 2)*

	1st half 2019	1st half 2018	Change	
Net interest income	97.5	77.6	19.9	25.6%
Risk provisions in the lending and securities business	–11.4	15.4	–26.8	–174.0%
Net commission income	591.4	563.9	27.5	4.9%
Net financial income	148.0	96.5	51.5	53.4%
Other operating profit	–54.1	–15.5	–38.6	–249.0%
Total income	**771.4**	**737.8**	33.6	4.6%
Administrative expenses (including depreciation)	545.6	515.1	30.5	5.9%
Restructuring expenses	2.7	–	2.7	n/a
Total expenses	**548.3**	**515.1**	33.2	6.4%
Economic result	**223.1**	**222.6**	0.5	0.2%

The cost/income ratio, i.e. the ratio of total expenses (excluding restructuring expenses) to total income (before risk provisions in the lending and securities business), came to 69.7%, a slight improvement on the previous year due to income-related factors (H1 2018: 71.3%). Return on equity (before tax) was 9.3% (H1 2018: 9.6%).

Ratings

In 2019, DekaBank's ratings remain among the best in its peer group of German commercial banks. Our issuer rating from Standard & Poor's (S&P) is unchanged at A+ with a stable outlook, with a short-term rating of A-1. S&P gives us ratings of A+ for preferred senior unsecured debt ("Senior Unsecured Debt") and A for non-preferred senior unsecured debt ("Senior Subordinated Debt").

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

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

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 achieved an economic result of €172.0m in the first half of 2019 (H1 2018: €126.3m). Net sales were down on the high prior-year figure. Thanks to positive performance, total customer assets increased to €234.8bn (year-end 2018: €217.3bn).

Net sales and total customer assets

Net sales in the Securities division came to €1.2bn at the end of the first half of 2019 (H1 2018: €5.1bn). Net sales in relation to mutual securities funds (including fund-based asset management) were €–0.4bn (H1 2018: €2.4bn). Sales of equity funds improved compared with the first half of 2018. On the other hand, the reluctance among investors particularly in fund-based asset management was noticeable where bond funds and mixed funds were concerned. With net sales totalling €–0.3bn, ETFs fell short of the previous year's figures for both ETF equity and ETF bond funds.

Net sales of special funds and mandates (including master funds) declined to €1.9bn (H1 2018: €2.4bn). In particular, advisory/management mandates showed positive development compared with the same period of the previous year.

Net sales in the Asset Management Securities business division *in €m (Fig. 3)*

	1st half 2019	1st half 2018
Net sales	**1,228**	**5,129**
by customer segment		
Retail customers	127	2,610
Institutional customers	1,101	2,518
by product category		
Mutual funds and fund-based asset management	–369	2,353
ETFs	–302	370
Special funds and mandates	1,899	2,406

In the first six months of 2019, the division's total customer assets rose by €17.5bn to €234.8bn, mainly due to performance that was clearly in positive territory.

Total customer assets in the Asset Management Securities business division *in €m (Fig. 4)*

	30 Jun 2019	31 Dec 2018	Change	
Total customer assets	**234,849**	**217,337**	17,512	8.1%
by customer segment				
Retail customers	105,230	97,384	7,846	8.1%
Institutional customers	129,619	119,952	9,667	8.1%
by product category				
Mutual funds and fund-based asset management	113,989	106,315	7,674	7.2%
thereof: equity funds	33,855	28,443	5,412	19.0%
thereof: bond funds	30,831	31,426	–595	–1.9%
thereof: mixed funds	16,784	15,467	1,317	8.5%
ETFs	9,175	8,602	573	6.7%
Special funds and mandates	111,684	102,420	9,264	9.0%

Profit performance in the Asset Management Securities business division

At €172.0m, the division’s economic result was higher than the comparative figure for the previous year (€126.3m). This was primarily due to the increase in net commission income as a major income component. At €182.2m, expenses were slightly down on the comparative figure for the first half of 2018 (€186.2m).

Profit performance in the Asset Management Securities business division *in €m (Fig. 5)*

	1st half 2019	1st half 2018	Change	
Net commission income	347.3	326.8	20.5	6.3%
Other income	12.3	−4.2	16.5	(> 300%)
Total income	**359.5**	**322.5**	37.0	11.5%
Administrative expenses (including depreciation)	179.5	186.3	−6.8	−3.7%
Restructuring expenses	2.7	−0.0	2.7	(> 300%)
Total expenses	**182.2**	**186.2**	−4.0	−2.1%
Economic result without Treasury function	**177.3**	**136.3**	41.0	30.1%
Treasury function	−5.4	−9.9	4.5	45.5%
Economic result	**172.0**	**126.3**	45.7	36.2%

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

The Asset Management Real Estate business division once again boosted its net sales compared with the first half of 2018. This and a solid performance meant that total customer assets surpassed the €40bn mark. The economic result of €44.7m fell short of the mid-year figure for 2018 (€50.8m).

Net sales and total customer assets

At €1.9m, net sales significantly exceeded the comparable prior-year figure of €1.3bn. 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 high real estate prices.

Mutual funds accounted for 84% of the division’s net sales. There was particularly high demand for products focused on Europe, such as *Deka-ImmobilienEuropa* and *WestInvest InterSelect*.

The net inflow into special funds, individual property funds and credit funds and mandates was €0.1bn, which represented an increase over last year.

Net sales in the Asset Management Real Estate business division *in €m (Fig. 6)*

	1st half 2019	1st half 2018
Net sales	**1,910**	**1,263**
by customer segment		
Retail customers	1,500	1,035
Institutional customers	409	228
by product category		
Mutual property funds	1,608	1,092
Special funds and individual property funds and mandates	302	171

Despite distributions in excess of €0.4bn, total customer assets in the Asset Management Real Estate division rose by 6.2% to €40.5bn (year-end 2018: €38.1bn), of which €30.1bn related to products for retail customers. A yield-focused cash management policy again contributed to the rise in total customer assets. Euro-denominated mutual property funds achieved an average volume-weighted return of 3.5% (year-end 2018: 3.4%).

Transaction volume, i.e. purchases and sales of property, declined to €1.1bn (H1 2018: €1.2bn). Around 59% of the overall transaction volume concerned a total of nine contractually secured property purchases. There were twelve disposals. Business activities continue to centre on properties in the office, shopping, hotel and logistics asset classes.

Total customer assets in the Asset Management Real Estate business division *in €m (Fig. 7)*

	30 Jun 2019	31 Dec 2018	Change	
Total customer assets	**40,479**	**38,099**	2,380	6.2%
by customer segment				
Retail customers	30,073	28,477	1,596	5.6%
Institutional customers	10,405	9,622	783	8.1%
by product category				
Mutual property funds	32,728	30,934	1,794	5.8%
Special funds and individual property funds and mandates	7,751	7,166	585	8.2%

Profit performance in the Asset Management Real Estate business division

The economic result of the Asset Management Real Estate business division stood at €44.7m in the first half of 2019 compared with €50.8m in the prior-year period. The decline compared with the first half of 2018 was due primarily to lower net commission income. This was attributable in particular to commission income from purchasing and construction fees, which was significantly lower than in the previous year. The expenses showed a slight increase compared to the first half of the previous year due to higher personnel expenses as a result of an increased real estate portfolio.

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

	1st half 2019	1st half 2018	Change	
Net interest income	–0.2	0.2	–0.4	–200.0%
Net commission income	113.9	119.0	–5.1	–4.3%
Net financial income	0.8	–1.2	2.0	166.7%
Other operating profit	0.1	0.5	–0.4	–80.0%
Total income	**114.6**	**118.6**	–4.0	–3.4%
Administrative expenses (including depreciation)	68.3	65.8	2.5	3.8%
Total expenses	**68.3**	**65.8**	2.5	3.8%
Economic result without Treasury function	**46.3**	**52.8**	–6.5	–12.3%
Treasury function	–1.6	–2.0	0.4	20.0%
Economic result	**44.7**	**50.8**	–6.1	–12.0%

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

In the first half of 2019, the Asset Management Services division increased the number of securities accounts and the amount of assets under custody, as well as expanding its digital multichannel management offering. The economic result was €8.8m (H1 2018: €11.6m).

Business development in the Asset Management Services business division

Supported by market developments in the first half of 2019, assets under custody in the Digital Multichannel Management subdivision rose to €129.1bn (year-end 2018: €118.6bn). At 36.3 million, the number of securities transactions fell slightly in a year-on-year comparison (H1 2018: 40.7 million). The 2018 figure was influenced by a one-off effect relating to the introduction of the Investment Tax Reform Act (*Investmentsteuerreformgesetz*). By the middle of 2019, around 250 savings banks (year-end 2018: 140) had used the broker model to integrate the digital asset management system developed by bevestor into the product offering of their "internet branches".

Assets under custody showed a marked increase to €211.6bn (year-end 2018: €194.6bn). This was attributable to both mutual funds and special funds. The number of custody accounts for which the division is the legal provider rose increased by 34.2 thousand to 4.7 million in the first half of 2019.

Profit performance in the Asset Management Services business division

The economic result for the Asset Management Services division was €8.8m in the first half of 2019 (H1 2018: €11.6m). The largest income component was net commission income of €88.2m (H1 2018: €92.6m). Against this, expenses came to €86.5m (H1 2018: €81.8m). The increase was primarily the result of expenses for regulatory affairs and for the further development and expansion of Digital Multichannel Management.

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

	1st half 2019	**1st half 2018**	Change	
Net interest income	1.7	2.1	–0.4	–19.0%
Risk provisions in the lending and securities business	–	–0.1	0.1	100.0%
Net commission income	88.2	92.6	–4.4	–4.8%
Net financial income	3.6	–2.2	5.8	263.6%
Other operating profit	2.7	2.0	0.7	35.0%
Total income	**96.1**	**94.4**	1.7	1.8%
Administrative expenses (including depreciation)	86.5	81.8	4.7	5.7%
Total expenses	**86.5**	**81.8**	4.7	5.7%
Economic result without Treasury function	**9.6**	**12.5**	–2.9	–23.2%
Treasury function	–0.8	–1.0	0.2	20.0%
Economic result	**8.8**	**11.6**	–2.8	–24.1%

Business development and profit performance in the Capital Markets business division

The Capital Markets business division has continued consistently to develop its products and expand infrastructure services, thus enhancing its positioning as a central provider of products and solutions within the *Sparkassen-Finanzgruppe*. Customer needs and future regulatory requirements have been taken into account as part of this process. The division's economic result showed a year-on-year increase from €34.5m in the first half of 2018 to €96.0m.

Business development in the Capital Markets business division

The Collateral Trading & Currency unit fell short of the comparable figure for the previous year due to the persistent environment of low interest rates and the high level of market liquidity, despite its solid position in the lending business and collateral management, among other areas. Business developments in the Commission Business unit were stable. The Trading & Structuring unit benefited from positive spread developments as well as sustained high demand in the third-party issues and certificates business. Net sales of certificates amounted to €3.6bn (H1 2018: €4.2bn). At just shy of €2.8bn, retail customers accounted for the lion's share of demand (H1 2018: €3.0bn). Net sales to institutional customers came to €0.8bn (H1 2018: €1.2bn).

Profit performance in the Capital Markets business division

At €96.0m, the division's economic result was up on the comparative figure for the previous year (€34.5m). This was mainly due to very high customer activity at the beginning of the year and valuation effects relating to banking book portfolios. Lower negative contributions from the Treasury function also had a positive effect in the first half of 2019, again due to valuation effects. Expenses of €84.5m were slightly above the previous year's level.

Profit performance in the Capital Markets business division *in €m (Fig. 10)*

	1st half 2019	**1st half 2018**	Change	
Net interest income	32.0	18.8	13.2	70.2%
Risk provisions in the lending and securities business	–0.9	9.2	–10.1	–109.8%
Net commission income	29.3	11.3	18.0	159.3%
Net financial income	136.1	112.1	24.0	21.4%
Other operating profit	1.1	1.3	–0.2	–15.4%
Total income	**197.5**	**152.7**	44.8	29.3%
Administrative expenses (including depreciation)	84.5	82.4	2.1	2.5%
Total expenses	**84.5**	**82.4**	2.1	2.5%
Economic result without Treasury function	**113.0**	**70.3**	42.7	60.7%
Treasury function	–17.0	–35.8	18.8	52.5%
Economic result	**96.0**	**34.5**	61.5	178.3%

Business development and profit performance in the Financing business division
In the first half of 2019, the Financing business division achieved an economic result of €35.4m (H1 2018: €37.7m). Gross loan volume in the division increased by around 5% to reach €25.2bn at mid-year. Both Specialised Financing and Real Estate Financing exceeded the figures for year-end 2018.

Business development in the Financing business division
Gross loan volume in the Specialised Financing subdivision rose slightly to €15.1bn (year-end 2018: €14.2bn). Infrastructure financing accounted for €3.5bn (year-end 2018: €3.1bn), export financing for €1.4bn (year-end 2018: €1.5bn) and public sector financing for €1.6bn (year-end 2018: €1.2bn). The transport financing also included in this figure in the total amount of €4.8bn (year-end 2018: €4.5bn) comprised ship financing of €1.2bn and aircraft financing of €3.6bn. Gross loan volume for savings bank financing fell by €0.1bn as against the end of 2018 to €3.5bn.

The legacy portfolio, which primarily contains ship financing loans that were made before the lending risk strategy was changed in 2010, was reduced further to €0.2bn as planned (year-end 2018: €0.3bn).

Gross loan volume in the Real Estate Financing subdivision also rose slightly during the first half of 2019 to €10.1bn (year-end 2018: €9.8bn). The volume of commercial property loans showed a moderate increase to €8.1bn (year-end 2018: €7.8bn). Financing volume in open-ended real estate funds remained stable at €1.9bn (year-end 2018: €1.9bn).

Compared to year-end 2018, the average rating for the loan portfolio according to the DSGV master scale improved by one notch to 5. This corresponds to a rating of BBB– on S&P's external rating scale. The average rating for Specialised Financing improved from 7 to 6 over the same period (S&P: BB to BB+). The rating for Real Estate Financing changed by one notch from 4 to 5 (S&P: both BBB–). Taking account of collateralised assets, the average rating for Real Estate Financing deteriorated from AAA on the DSGV master scale (S&P: AAA) to AA– (S&P: A+).

At €3.6bn, the volume of new business in the Financing division showed positive development in the first half of 2019 compared with the previous year's figure of €3.3bn. New business in the Specialised Financing subdivision increased to €2.2bn (H1 2018: €2.1bn), as did new business in the Real Estate Financing subdivision, which rose to €1.4bn (H1 2018: €1.3bn). Savings bank financing accounted for around 3% of total new business (H1 2018: 10%).

The volume of placements fell as against the figure seen at the end of the first six months of 2018 to around €0.5bn, in line with expectations. The lion’s share of this amount was placed directly with the *Sparkassen-Finanzgruppe*.

Profit performance in the Financing business division

In the first half of 2019, the Financing business division achieved an economic result of €35.4m (H1 2018: €37.7m). Net interest income was slightly higher than in the previous year, while net commission income was moderately lower. Risk provisions amounted to €–10.6m in the first half of 2019, in line with expectations. In the first half of 2018, there was a positive risk provisioning result of €6.2m due to the reversal of provisions that were no longer required and income on written-down receivables. At €28.0m, expenses were stable at the same level as in the previous year.

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

	30 Jun 2019	31 Dec 2018	Change	
Net interest income	64.8	59.1	5.7	9.6%
Risk provisions in the lending and securities business	– 10.6	6.2	– 16.8	– 271.0%
Net commission income	13.7	14.2	– 0.5	– 3.5%
Net financial income	– 0.9	2.6	– 3.5	– 134.6%
Other operating profit	5.5	0.9	4.6	(> 300%)
Total income	**72.6**	**83.1**	– 10.5	– 12.6%
Administrative expenses (including depreciation)	28.0	27.8	0.2	0.7%
Total expenses	**28.0**	**27.8**	0.2	0.7%
Economic result without Treasury function	**44.6**	**55.3**	– 10.7	– 19.3%
Treasury function	– 9.2	– 17.6	8.4	47.7%
Economic result	**35.4**	**37.7**	– 2.3	– 6.1%

Financial position of the Deka Group

Financial position, capital structure, assets and liabilities

The Deka Group’s total assets rose by around 8% relative to the end of 2018 to reach €108.8bn as at 30 June 2019.

Amounts due from banks and customers rose as against the end of 2018 by €1.8bn to €50.1bn and accounted for around half of total assets. This movement resulted mainly from new reverse repo activities and the expansion of lending. Financial assets measured at fair value increased to around €30bn (year-end 2018: €25.0bn), due in particular to an increase in the volume of interest rate derivatives, the development of interest rates in the first half of 2019 and the volume-related increase in bonds in the context of synthetic lending transactions. At €11.2bn, financial investments were slightly (€0.4bn) higher than at the end of the previous year.

Amounts due to banks and customers increased by €4.4bn in the first six months of 2019 to €53.1bn as at 30 June 2019, corresponding to around 49% of total assets. The reason for the increase in amounts due to banks was – in line with developments on the assets side – an increase in repo transactions, while amounts due to customers increased largely due to short-term time deposits in the context of liquidity management. The issue of commercial paper was also used to manage the Deka Group's liquidity. This resulted in securitised liabilities that were up by €1.8bn (€16.6bn). At €31.2bn, financial liabilities at fair value were moderately (€1.9bn) higher than at the end of 2018. As with financial instruments measured at fair value on the assets side, they were influenced by an increase in the volume of interest rate swaps, the development of interest rates in the first half of 2019 and the increase in trading issues in the context of the certificates business.

Changes in the Deka Group balance sheet *in €m (Fig. 12)*

	30 Jun 2019	31 Dec 2018	Change	
Total assets	**108,752**	**100,444**	8,308	8.3%
Selected asset items				
Due from banks and customers	50,147	48,393	1,754	3.6%
Financial assets at fair value	30,050	25,045	5,005	20.0%
Financial investments	11,188	10,795	393	3.6%
Selected liability items				
Due to banks and customers	53,080	48,673	4,407	9.1%
Securitised liabilities	16,629	14,791	1,838	12.4%
Financial liabilities at fair value	31,167	29,307	1,860	6.3%

Changes in regulatory capital (own funds)

Capital adequacy is determined in accordance with the CRR/CRD IV. Alongside credit risk, market risk and operational risk, the credit valuation adjustment (CVA) risk is also taken into account. Regulatory own funds requirements were met at all times during the reporting period.

In addition, capital adequacy is also considered from a normative perspective on this basis. This involves defining internal threshold values, compliance with which is ensured by means of an ongoing monitoring process. This includes monthly plan/actual comparisons, as well as a forecast process. The internal thresholds were well above the regulatory minimum requirements.

The fully loaded Common Equity Tier 1 capital ratio (calculated in accordance with CRR/CRD IV requirements) stood at 15.2% at the midpoint of 2019, compared with 15.4% at the end of 2018.

The slight increase in Common Equity Tier 1 capital by around 3% to €4,575m was due to effects resulting from the 2018 annual financial statements, especially reinvestments. At the same time, risk-weighted assets showed a moderate increase of around 4% to €30,191m. In terms of market risk, the €736m change to €7,084m was mainly attributable to an increase in the interest rate-induced business volume and increased spread risks in the internal market risk model. Credit risk increased by €512m to €19,256m against the backdrop of the expansion of business in the Financing business division. Operational risk fell by €120m to €3,245m in the first half of the year. The CVA risk amounted to €606m, up slightly on the level seen at the end of 2018.

The total capital ratio (fully loaded) stood at 19.3% at mid-year (year-end 2018: 19.8%).

The leverage ratio determined in accordance with the Delegated Regulation of 17 January 2015, i.e. the ratio of Tier 1 capital to total assets, adjusted in line with regulatory requirements, stood at 4.5% as at 30 June 2019 (year-end 2018: 4.6%). Taking account of the phase-in provisions, the leverage ratio for the Deka Group was also 4.5% (year-end 2018: 4.6%). This was substantially above the minimum leverage ratio of 3.0% to be adhered to from June 2021 onwards.

Deka Group own funds *in €m (Fig. 13)*

		30 Jun 2019		31 Dec 2018
	CRR/CRD IV (without transitional provisions)	CRR/CRD IV (with transitional provisions)	CRR/CRD IV (without transitional provisions)	CRR/CRD IV (with transitional provisions)
Common Equity Tier 1 (CET 1) capital	4,575	4,575	4,460	4,460
Additional Tier 1 (AT 1) capital	474	489	474	495
Tier 1 capital	**5,048**	**5,064**	**4,933**	**4,954**
Tier 2 (T2) capital	789	789	807	807
Own funds	**5,837**	**5,852**	**5,741**	**5,762**
Credit risk	19,256	19,256	18,744	18,744
Market risk	7,084	7,084	6,348	6,348
Operational risk	3,245	3,245	3,365	3,365
CVA risk	606	606	565	565
Risk-weighted assets	**30,191**	**30,191**	**29,021**	**29,021**
%				
Common Equity Tier 1 capital ratio	**15.2**	**15.2**	**15.4**	**15.4**
Tier 1 capital ratio	**16.7**	**16.8**	**17.0**	**17.1**
Total capital ratio	**19.3**	**19.4**	**19.8**	**19.9**

Liquidity and refinancing

See also:
Liquidity risk:
pages 37, ff

The liquidity management requirements set out under the Minimum Requirements for Risk Management (*Mindestanforderungen an das Risikomanagement* – MaRisk) were met during the first six months of 2019. The requirements of the German Liquidity Regulation (*Liquiditätsverordnung*) were likewise fully complied with. The liquidity coverage ratio (LCR) stood at 137.9% at mid-year (year-end 2018: 149.8%). More detailed information regarding the Deka Group's liquidity situation can be found in the risk report.

Refinancing is carried out in a diversified manner using domestic and international money market and capital market instruments. This includes issues of *Pfandbriefe*, short-term bearer bonds based on the commercial paper (CP) programme, and medium to long-term bearer bonds based on the debt issuance programme and the programmes for structured issues and certificates. These activities are supplemented by placements of registered debt securities and promissory note loans. DekaBank also uses the repo and lending markets, call money and time deposits to raise and invest liquidity.

Human resources report

The total number of people employed by the Deka Group remained virtually unchanged in the first six months of 2019 at 4,741 (year-end 2018: 4,716). 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 dropped slightly compared with the end of 2018 from 4,179 to 4,123. The total includes part-time employees actively involved in work processes in the Deka Group, who are counted *pro rata* on the basis of their working hours.