MOODY'S
INVESTORS SERVICE

Credit Opinion: DekaBank Deutsche Girozentrale

Global Credit Research - 22 Mar 2015

Frankfurt am Main, Germany

Ratings

Category	Moody's Rating
Outlook	Rating(s) Under Review
Bank Deposits	*A1/P-1
Bkd Bank Deposits	Aaa/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	a3
Bkd Senior Secured -Dom Curr	Aaa
Senior Unsecured -Dom Curr	**A1
Subordinate MTN -Dom Curr	(P)Baa1
Pref. Stock Non-cumulative -Dom Curr	Baa3 (hyb)
Bkd Commercial Paper -Dom Curr	P-1
Other Short Term -Dom Curr	(P)P-1

* Rating(s) within this class was/were placed on review on March 17, 2015
** Placed under review for possible upgrade on March 17, 2015

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Key Indicators

DekaBank Deutsche Girozentrale (Consolidated Financials)[1]

	[2]6-14	[3]12-13	[3]12-12	[3]12-11	[3]12-10	Avg.
Total Assets (EUR million)	120,826.6	116,072.9	129,770.3	133,737.6	130,303.8	[4]-1.9
Total Assets (USD million)	165,429.8	159,941.7	171,088.1	173,610.8	174,808.2	[4]-1.4
Tangible Common Equity (EUR million)	3,842.9	3,744.7	3,543.6	3,286.5	4,056.5	[4]-1.3
Tangible Common Equity (USD million)	5,261.5	5,160.0	4,671.9	4,266.4	5,442.0	[4]-0.8
Problem Loans / Gross Loans (%)	2.5	2.3	2.7	2.5	1.6	[5]2.3
Tangible Common Equity / Risk Weighted Assets (%)	14.1	16.7	15.0	13.1	15.8	[6]14.1
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	15.2	16.0	21.9	22.4	10.5	[5]17.2
Net Interest Margin (%)	0.3	0.2	0.2	0.2	0.3	[5]0.2
PPI / Average RWA (%)	3.4	2.3	2.4	2.4	3.3	[6]3.4
Net Income / Tangible Assets (%)	0.5	0.3	0.2	0.2	0.5	[5]0.3
Cost / Income Ratio (%)	48.8	67.0	62.1	60.6	49.8	[5]57.7
Market Funds / Tangible Banking Assets (%)	73.1	76.3	77.3	77.2	78.3	[5]76.4

Liquid Banking Assets / Tangible Banking Assets (%)	**45.8**	**46.4**	**46.4**	**45.9**	**47.5**	[5]**46.4**
Gross Loans / Total Deposits (%)	**38.2**	**55.6**	**76.4**	**66.4**	**129.2**	[5]**73.2**

Source: Moody's

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; IFRS [3] Basel II; IFRS [4] Compound Annual Growth Rate based on IFRS reporting periods [5] IFRS reporting periods have been used for average calculation [6] Basel III - fully-loaded or transitional phase-in & IFRS reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

On 17 March, we placed under review for upgrade DekaBank's A1 long-term debt and deposit ratings. The bank's Prime-1 short-term debt and deposit ratings, the Baa1 rating for senior subordinated debt, the Baa3(hyb) rating for one specific Additional Tier 1 (AT1) instrument, and the baa2 standalone baseline credit assessment (BCA) were unaffected by this rating action.

The review for upgrade was prompted by changes arising from the implementation of our new methodology for rating banks globally, which is positive for DekaBank's senior debt and deposit ratings. This positive effect stems from the introduction of our advanced Loss Given Failure (LGF) analysis, which takes into account the severity of loss faced by the different liability classes across the liability structure should the bank enter resolution. We expect this positive effect to outweigh the pressure (from the European resolution regime adopted in the EU) on our current assumptions for government support. Our preliminary indication of the expected rating outcome for long-term debt and deposits is therefore Aa3.

DekaBank's standalone baa2 BCA remains unchanged under the new rating methodology. It is underpinned by good asset quality and regulatory capitalisation, as well as strong liquidity, but constrained by relatively high leverage.

DEKABANK's RATINGS ARE SUPPORTED BY ITS VERY STRONG- MACRO PROFILE

German banks benefit from operating in an environment with very high economic, institutional and government financial strength and very low susceptibility to event risk. Low and declining private sector debt and a stable housing price cycle support credit conditions. Funding conditions benefit from a strong domestic deposit base and good wholesale market access. However, operating conditions for the German banking system are constrained by high fragmentation in an over-saturated market, low fee income generation and intensifying competition for domestic business. Almost three quarters of DekaBank's assets are in Germany and the remainder is mostly in the stronger countries in the EU, resulting in a macro score of very strong- (VS-), in line with our assessment for Germany.

Rating Drivers

- Capitalisation is sound in the context of its low-risk asset profile, although leverage remains high

- Risk-adjusted profitability is robust, but revenues remain under pressure

- Dependence on wholesale funds is mitigated by DekaBank's highly liquid balance sheet

- Senior creditors benefit from ample subordinated instruments, which provide a buffer in resolution

Rating Outlook

DekaBank's A1 long-term debt and deposit ratings are on review for upgrade. The review will focus on (1) the result of our advanced LGF analysis; and (2) systemic support.

We will use the review for a validation of the results of our LGF analysis, which indicates a very low loss-given-failure for senior unsecured debt and junior deposits. Absent major changes from the validation, we will position DekaBank's Preliminary Rating Assessment (PRA) for these liability classes two notches above the a3 Adjusted BCA.

Our revised assessment of government support that we factor into DekaBank's senior debt and deposit ratings will likely result in a reduction to one from the current two notches. DekaBank is subject to the European resolution regime (Bank Recovery and Resolution Directive, or BRRD), which the German government has implemented with effect from 1 January 2015.

What Could Change the Rating - Up

The upward pressure on the long-term ratings is driven by positive effects from our LGF analysis , which may provide up to two notches of rating uplift. We expect this effect to more than offset pressure on these ratings from weakening government support.

Upward pressure on the baa2 BCA would be subject to a sustained lowering of the bank's concentration risk to financial intermediaries, along with an improvement in its absolute capital levels.

What Could Change the Rating - Down

We do not expect negative pressure on the A1 long-term ratings, although a downgrade of DekaBank's BCA or a deterioration in the financial profile of the German Savings Banks Association would adversely influence the ratings. The BCA will come under pressure if additional risks emerge from DekaBank's commercial banking activities, or if the bank fails to gradually improve its leverage ratio.

DETAILED RATING CONSIDERATIONS

CAPITALISATION IS SOUND IN THE CONTEXT OF THE LOW-RISK ASSET PROFILE, ALTHOUGH LEVERAGE REMAINS HIGH

The prospect of resilient core earnings and good capital retention capacity underpin our view that DekaBank will be able to further improve its capital base during 2015-16. Despite a satisfactory common equity Tier 1 (CET1) ratio and sound economic capital buffers, DekaBank will need to bolster its capital base further in order to maintain its 3% leverage ratio, which may erode by approximately 35 basis points from the CRR/CRD IV transitional effects. The bank's leverage ratio remains weak compared with similarly rated peers and a constraining factor on its baa2 BCA. However, the relatively high leverage is balanced by DekaBank's sound assets profile, which benefits from the mostly secured nature of its lending to financial intermediaries.

The bank's 13.3% transitional CET1 ratio and the 11.8% fully phased-in CET1 ratio (under the Capital Requirements Regulation (CRR) and the fourth Capital Requirements Directive (CRD IV) illustrate that capitalisation is sound (ratios as of June 2014). The 2014 stress test results published by the European Banking Authority (EBA) illustrated this, as DekaBank passed the hurdles of 8% (baseline) and 5.5% (adverse) by a comfortable margin; the post-stress CET1 ratios were a solid 12.3% and 8.0%, respectively. In addition, the stress test results reflect that DekaBank's CET1 ratio would fall to still comfortable levels of 11.8% in the EBA's baseline scenario and 7.5% in the adverse case if based on a pro-forma, fully phased-in calculation of that ratio, i.e., still well above the hurdles.

Notwithstanding DekaBank's sound risk profile and strong mitigants to assets risks in the form of collateral, we take the view that its low 2.5% three-year average problem loan ratio does not adequately capture all relevant risks. To take account of risks relating to the bank's substantial market risk as well as borrower and sector concentrations, we adjust the Asset Risk score downward to baa2 (see BCA scorecard at the end of this report). A downward adjustment of the Capital score to baa1 is to capture the bank's relatively high TCE-based leverage (Tangible Common Equity relative to Tangible Assets), which was a modest 3.6% as of June 2014.

Risk to capital whilst not negligible, is manageable. DekaBank runs considerable market risk related to investments and derivative positions, which represented one-third of the bank's risk-weighted assets (RWA) as of June 2014. We acknowledge that RWA movements often reflect small duration mismatches of hedged positions (under the standardised approach for market risk, which DekaBank uses), rather than higher economic risk; however, we also note the resulting scope for capital ratio volatility. RWA for market risk was higher at EUR9.2 billion under CRR/CRD IV, compared with EUR6.8 billion under CRD III as of December 2013.

RISK-ADJUSTED PROFITABILITY IS ROBUST, BUT REVENUES REMAIN UNDER PRESSURE

Despite revenue pressures, DekaBank predicts a healthy overall performance for 2014, although profits in Q4 may remain below those of the previous quarters. We expect a stable trend for 2015, not least because net sales in the mutual funds business turned positive in H2 2014. This will likely support a recovery in fee income and offset expected adverse effects, in particular continued pressure on NII. In the medium term, implementation of the

Markets in Financial Instruments Directive (MiFID II) by year-end 2016 could negatively affect DekaBank's profitability. We note positively that after the initial negative effects on earnings following the acquisition of business from Landesbank Berlin (LBB, deposits A1 on review for downgrade; BCA ba1), benefits from a broader product suite and higher economies of scale could be mildly supportive of profits in coming quarters.

Owing to its strong and profitable asset-management franchise, DekaBank's risk-adjusted profitability is robust and represents an important cushion for credit and market-related losses. As the preferred retail asset manager of the savings bank sector and a leading provider of institutional investment funds, DekaBank commands a resilient fee and commission income (FCI) from asset-management activities, which accounted for 61% of core revenues (including the trading result) in the six months to June 2014. Whilst DekaBank's net interest income (NII), which deteriorated by 9.4% during 2013 and another 8% during the nine months to September 2014, may remain under pressure for an extended period, we expect that pre-provision income will remain a high multiple of risk charges. To recognise the substantial risk buffer that DekaBank's earnings represent, we adjust upward the Profitability score by one notch to ba1.

DekaBank reported a broadly stable economic result of EUR450 million for the nine months to September 2014, benefitting from improved FCI of EUR719 million (+3% year-over-year), higher net financial income from trading positions of EUR235 million (+14%), broadly stable costs of EUR645 million, and a small net release of risk provisions. This compensated for an 8% fall in NII to EUR254 million. Given the combination of higher financial results, continued NII erosion and exceptionally low risk charges during the period, the quality of DekaBank's earnings remains under some pressure. The bank's reported economic result includes several items not shown in the IFRS income statement, such as valuation gains/losses from hedged lending and issuance business to better represent the true economic position, possible future charges and actuarial gains/losses from pension provisions.

DEPENDENCE ON WHOLESALE FUNDS IS MITIGATED BY DEKABANK'S HIGHLY LIQUID BALANCE SHEET

DekaBank is highly dependent on wholesale funds. Almost two-thirds of the balance sheet is funded through interbank repo and other short-term products, i.e., institutional deposits and commercial paper. This dependence is balanced by DekaBank's easy access to (recurring) funds from the savings banks sector, substantial regular excess cash from its mutual funds franchise and high liquidity balances. The modestly sized EUR25 billion loan book (as of June 2014) is comfortably matched by medium- and long-term funds.

DekaBank is structurally slightly overfunded, with no liquidity shortfalls in short- and long-term buckets. Full coverage also applies in its "combined stress scenario", i.e., a stress test introduced in compliance with local regulatory requirements (Minimum Requirements for Risk Management for Banks or MaRisk). The German savings bank sector regularly provides stable funding, especially with medium- and long-term maturities. Taken together, sector funds and excess cash from the mutual funds franchise provide a material amount of liquidity, indicating that our funding structure ratio (market funds relative to adjusted tangible banking assets) overstates funding risks. To capture these benefits, we adjust the initial Funding Structure score to ba3. The Combined Liquidity score is higher at baa2.

Notching Considerations

AFFILIATE SUPPORT

DekaBank benefits from cross-sector support from Sparkassen-Finanzgruppe. Cross-sector support materially reduces the probability of default, as it would be available to stabilise a distressed member bank, and not just compensate for losses in resolution.

We continue to consider the readiness of the sector to support its members to be high to very high. This particularly applies to DekaBank given its key service function for the sector and its 100% ownership by the sector's savings banks. Cross-sector support continues to provide two notches of rating uplift to DekaBank's debt, deposit and subordinated instrument ratings.

LOSS GIVEN FAILURE

DekaBank is subject to the EU Bank Resolution and Recovery Directive, which we consider to be an Operational Resolution Regime. We therefore apply our Loss Given Failure analysis, considering the risks faced by the different debt and deposit classes across the liability structure should the bank enter resolution. We assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in "junior" wholesale deposits, a 5% run-off in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. These ratios are in line with our standard assumptions.

For senior unsecured debt, our LGF analysis indicates a very low loss-given-failure, leading us to position the Preliminary Rating Assessment (PRA) two notches above the bank's a3 Adjusted BCA.

For senior subordinated debt, rated Baa1, our LGF analysis indicates a high loss-given-failure, leading us to position the PRA one notch below the bank's Adjusted BCA (which is unchanged from our current notching).

The perpetual Additional Tier 1 (AT1) notes issued in 2014 are rated Baa3(hyb), three notches below the Adjusted BCA, in line with our framework for rating non-viability Contingent Convertible Securities.

GOVERNMENT SUPPORT

The implementation of the BRRD in Germany has caused us to reconsider the potential for government support to benefit certain creditors. We now expect a moderate probability of government support for DekaBank's senior debt and deposits, resulting in a one-notch uplift to the PRA. Our revised systemic support assumptions included in DekaBank's ratings reflect the size and high systemic relevance, at the domestic level, of the group of public sector banks.

ABOUT MOODY'S BANK RATINGS

About Moody's Bank Scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

DekaBank Deutsche Girozentrale

Macro Factors	
Weighted Macro Profile	**Very Strong -**

Financial Profile						
Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	2.5%	a1	←→	baa2	Market risk	Single name concentration
Capital						
TCE / RWA	14.1%	aa3	←→	baa1	Nominal leverage	
Profitability						
Net Income / Tangible Assets	0.3%	ba2	←→	ba1	Earnings quality	
Combined Solvency Score		a2		baa2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	76.3%	caa3	←→	ba3	Market funding quality	Term structure
Liquid Resources						

Liquid Banking Assets / Tangible Banking Assets	46.4%	aa2	←→	aa2		
Combined Liquidity Score		ba2		baa2		

Financial Profile	**baa2**

Qualitative Adjustments	**Adjustment**
Business Diversification	0
Opacity and Complexity	0
Corporate Behavior	0
Total Qualitative Adjustments	**0**

Sovereign or Affiliate constraint	Aaa
Scorecard Calculated BCA range	**baa1 - baa3**
Assigned BCA	**baa2**
Affiliate Support notching	**2**
Adjusted BCA	**a3**

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency rating**	**Foreign Currency rating**
Deposits	--	--	--	--	A1 RUR Possible Upgrade	A1 RUR Possible Upgrade
Senior unsecured bank debt	--	--	--	--	A1 RUR Possible Upgrade	
Dated subordinated bank debt	-1	0	baa1	0	(P)Baa1	
Non-cumulative bank preference shares	-1	-2	baa3	0	Baa3(hyb)	

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