MOODY'S
INVESTORS SERVICE

CREDIT OPINION
21 December 2017

Update

Rate this Research

RATINGS

DekaBank Deutsche Girozentrale

Domicile	Frankfurt am Main, Germany
Long Term Debt	Aa3
Type	Senior Unsecured - Dom Curr
Outlook	Negative
Long Term Deposit	Aa2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Goetz Thurm, CFA 49-69-70730-773
VP-Senior Analyst
goetz.thurm@moodys.com

Alexander Hendricks, CFA 49-69-70730-779
Associate Managing Director - Banking
alexander.hendricks@moodys.com

Carola Schuler 49-69-70730-766
Managing Director - Banking
carola.schuler@moodys.com

DekaBank Deutsche Girozentrale

Update following senior unsecured rating affirmation; outlook changed to negative

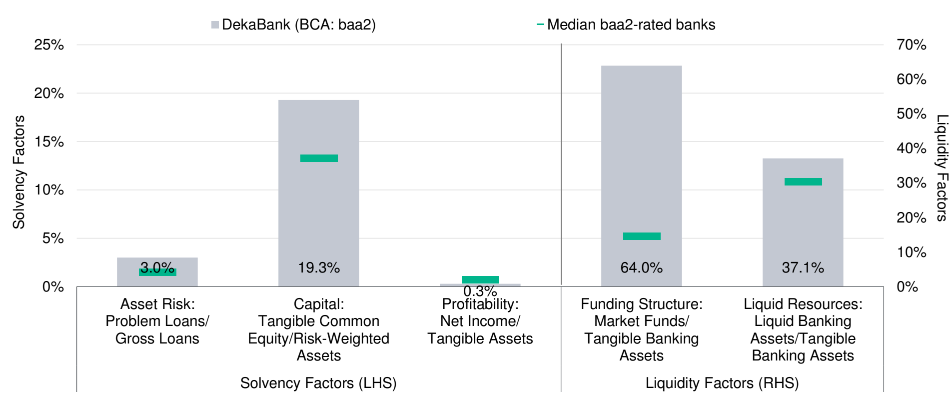
Summary

On 12 December 2017, we affirmed the Aa3 senior unsecured debt rating of DekaBank Deutsche Girozentrale (DekaBank) and changed the outlook for this debt class to negative. The rating action did not affect DekaBank's other ratings, including its Aa2/P-1 deposit ratings, its baa2 Baseline Credit Assessment (BCA) and Adjusted BCA, and its Aa2(cr)/P-1(cr) Counterparty Risk (CR) Assessment.

DekaBank's ratings reflect: (1) the bank's baa2 BCA; (2) its a3 Adjusted BCA, which incorporates our assumption of Very High affiliate support from Sparkassen-Finanzgruppe (S-Group, Aa2 stable, a2[1]), the German Savings Bank Finance Group, resulting in two notches of rating uplift; (3) the results of our Advanced Loss Given Failure (LGF) analysis, which provide three notches of rating uplift for deposits and two notches for senior debt from the A3 Adjusted BCA; and (4) our assumption of Moderate support from the Government of Germany (Aaa stable[2]), yielding one notch of rating uplift for DekaBank's senior debt and deposit ratings.

DekaBank's baa2 BCA reflects the group's modest credit risk and sound regulatory capital ratios. At the same time, it also captures its high reliance on market funding.

Exhibit 1
Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

Credit strengths

» Sound capitalisation

» High share of fee income stabilises profitability

» Robust net new customer asset growth

» Core institution of S-Group

Credit challenges

» Depressed net interest income given the low interest-rate environment

» Dependence on wholesale funding

» IFRS 9, further balance sheet growth, and certain legal risks could soften capital levels

» Potential write-down risks from remaining legacy shipping exposures

» In the long term, potential shifting preferences among German retail investors away from actively managed funds towards lower-margin passive investment products

Rating outlook

» The outlook on the Aa2 deposit ratings is stable, reflecting our anticipation that (1) the implied creditworthiness of DekaBank's owners as well as existing cross-sector support mechanisms will stay stable; and (2) the liability structure of the bank will stay broadly stable.

» On 12 December, we changed the outlook for DekaBank's Aa3 senior unsecured debt rating to negative from stable, reflecting our view that, once pending BRRD amendments are transposed into German law, unsecured bonds that meet the definition of article 46f of the German Banking Act (§46f KWG) could rank pari passu with future junior senior bonds. This may call into question the moderate probability of government support we currently consider warranted for senior unsecured debt instruments.

Factors that could lead to an upgrade

» An upgrade of DekaBank's ratings could result from (1) an upgrade of its BCA; and/or (2) a higher rating uplift as a result of our Advanced LGF analysis.

» Upward pressure on the baa2 BCA would develop in the event of an enduring improvement in the bank's capital levels, a material improvement of its profitability, and a pronounced reduction in its market-funding reliance.

» Positive pressure on the senior unsecured ratings could also arise should DekaBank materially raise its volume of subordinated instruments, leading to a lower loss severity for this liability class in resolution. The same does not apply to DekaBank's deposit and senior-senior ratings which already benefit from three notches of rating uplift from the bank's Adjusted BCA, the highest possible uplift.

Factors that could lead to a downgrade

» A downgrade of DekaBank's ratings could be triggered by (1) a lowering of the bank's BCA; (2) a deterioration in the implied creditworthiness of its owners; (3) weakening cross-sector support assumptions; and/or (4) a reduction in rating uplift as a result of our LGF analysis.

» DekaBank's BCA could come under pressure if additional risks emerge from its commercial banking activities, if the bank fails to maintain capital ratios at adequate levels, or if profitability declines further. We would expect, though, that a one-notch downgrade of the BCA would be offset by additional affiliate support.

» Negative pressure on the debt ratings could arise if DekaBank's volume of unsecured and subordinated debt instruments decreases relative to total banking assets. In addition, as indicated by the negative rating outlook, we may lower DekaBank's Aa3 long-term debt rating by one notch as a result of a future removal of the government support for outstanding plain-vanilla debt instruments. For additional information, please refer to our press release and special comment on this topic.

Key indicators

Exhibit 2

DEKABANK DEUTSCHE GIROZENTRALE (Consolidated Financials) [1]

	6-17[2]	12-16[2]	12-15[2]	12-14[2]	12-13[3]	CAGR/Avg.[4]
Total Assets (EUR billion)	96	86	108	113	116	-5.2[5]
Total Assets (USD billion)	110	91	117	137	160	-10.2[5]
Tangible Common Equity (EUR billion)	4.5	4.4	4.3	3.9	3.7	6.1[5]
Tangible Common Equity (USD billion)	5.1	4.6	4.6	4.7	5	0.5[5]
Problem Loans / Gross Loans (%)	2.2	3.5	3.1	3.3	2.4	2.9[6]
Tangible Common Equity / Risk Weighted Assets (%)	19.3	18.4	13.6	14.0	16.3	16.3[7]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	11.2	17.1	15.6	18.8	17.2	16.0[6]
Net Interest Margin (%)	0.2	0.1	0.2	0.3	0.2	0.2[6]
PPI / Average RWA (%)	2.4	2.3	2.2	3.2	2.4	2.5[7]
Net Income / Tangible Assets (%)	0.3	0.3	0.3	0.5	0.3	0.3[6]
Cost / Income Ratio (%)	65.3	61.0	59.7	50.9	65.7	60.5[6]
Market Funds / Tangible Banking Assets (%)	62.3	64.0	65.9	69.1	70.3	66.3[6]
Liquid Banking Assets / Tangible Banking Assets (%)	44.9	37.1	50.2	43.7	45.4	44.3[6]
Gross Loans / Due to Customers (%)	81.4	99.0	77.2	85.3	99.1	88.4[6]

[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] May include rounding differences due to scale of reported amounts [5] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime [6] Simple average of periods presented for the latest accounting regime. [7] Simple average of Basel III periods presented

Source: Moody's Financial Metrics

Profile

DekaBank is the securities service provider (Wertpapierhaus) for S-Group (on a combined basis, S-Group accounts for about a quarter of the German banking system). As of 30 June 2017, DekaBank reported consolidated balance sheet assets of €96 billion, while its total customer assets, comprising on-balance sheet assets and off-balance sheet assets under management, amounted to €270 billion (€135 billion each from retail customers and from institutional customers).

DekaBank provides its private and institutional clients with a range of fund-based products, covering all major asset classes. It also offers real estate funds and financing, lending, capital market-related trading and sales services, treasury facilities, including liquidity, asset and liability management, and funding.

DekaBank was established on 1 January 1999 following the merger of the DekaBank GmbH and Deutsche Girozentrale – Deutsche Kommunalbank. Since June 2011, the bank has been fully owned by the German Sparkassen (savings banks) through two joint shareholders – the Deutsche Sparkassen- und Giroverband ö.K. (DSGV ö.K., the German Savings Banks and Giro Association) and Deka Erwerbsgesellschaft mbH & Co. KG.

Detailed credit considerations

Sound capitalisation, partly reflecting low risk-weighted density

As of June 2017, Deka reported an 18.0% fully loaded CET1 ratio under the Capital Requirements Regulation and Directive (CRR/CRD IV), up from 16.7% as of December 2016. The improvement in regulatory capitalization was mostly driven by the inclusion of full-year 2016 retained earnings in CET1, which thus moved 6% higher, and also by a 2% decline in risk-weighted assets (RWA). The RWA reduction reflected somewhat lower counterparty and credit risk, despite the fact that DekaBank substantially relevered again in the first half of 2017. The bank's balance sheet expanded by €10 billion, or 12%, to €96 billion during the period, which followed rapid shrinkage of exposures in the fourth quarter of 2016, as DekaBank chose not to roll-over highly liquid market risk positions. Most of these positions have now been rebuilt, which led to a decline in DekaBank's fully loaded leverage ratio to 4.7% as of June 2017 from 5.1% as of December 2016. The bank's risk-weighted density (RWA to total assets) stood at a low 24% as of June 2017.

Our assigned a3 Capital score, four notches below the aa2 historical score, takes into account the bank's leverage ratio, which remains below our 5% threshold level, as well as a negative impact on capital ratios from the introduction of IFRS 9, further balance sheet growth (by September 2017, the CET1 ratio had declined again by 50bps to 17.5%), and potential legal risks, mainly stemming from investigations into past transactions in German stocks near the record date. For 2017, DekaBank's minimum capital requirements determined by the Supervisory and Review Process (SREP) were 7.18% on a CET1 basis and 10.68% on a Total Capital basis.

Asset risk profile improved following the sale of certain legacy shipping exposures

During 2016, Dekabank's asset risk profile had somewhat deteriorated on the back of the lingering crisis in global shipping markets. The bank had to record material write-downs of €187 million on its legacy shipping portfolio during 2016 and its problem loan ratio increased from 3.1% as of December 2015 to 3.5% as of December 2016. The ship finance book of DekaBank meanwhile had only marginally declined from €1.7 billion at year-end 2015 to €1.6 billion at year-end 2016, but by June 2017, gross exposures had dropped to €1.2 billion (representing 19% of TCE). The reduction in shipping loans was partly due to sales, which allowed the bank to cut its stock of problem loans by a third and resulted in a much improved problem loan ratio of 2.2% as of June 2017. While DekaBank has not been impacted as much by the global shipping crisis as some of the other German ship lenders, its remaining exposures, all underwritten prior to 2010, might create further write-downs should shipping markets deteriorate again in 2018, following the tentative recovery seen in 2017.

In addition to the bank's credit risk, DekaBank runs considerable market risk related to investments and derivative positions. While market risk RWA have permanently declined following the application of an internal model for the calculation of market price risk in 2016, dislocations in capital markets could represent tail risks for the bank's securities financing business. In addition, DekaBank plans to expand its long-term, more illiquid lending book in the areas of commercial real estate and structured finance, which confer higher margins, but also higher risks. Hence, to take account of risks relating to the bank's still substantial market risk and the changing asset risk profile, we continue to adjust the historical Asset Risk score of a3 downward to baa2.

High share of stable fee income provides earnings cushion

Owing to its strong and profitable asset-management franchise, DekaBank's fee income 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's resilient fee and commission income from asset-management activities accounted for 70% of net revenues during the first half of 2017. However, the implementation of the Markets in Financial Instruments Directive (MiFID II), which governs the permissibility of sales commission and other requirements for strengthening investor protection, could negatively affect DekaBank's profitability in the future. Furthermore, the market shift towards passive investments could put a dent in the bank's asset-based margin in the long-term. At present, though, net new asset generation from the bank's actively managed investment products remains robust.

In the first half of 2017, DekaBank's reported economic result (the bank's non-GAAP pretax measure) reached €241 million, a €12 million, or 5.0% increase on the same period in the previous year. This improved result reflected a €66 million (13%) acceleration in net commission income to €573 million, owing to higher assets under management, a marginally improved net interest income result (up 5% to €79 million), almost zero loan loss provisions (€75 million in the prior year), and a more than €100 million higher other operating income result, owing to actuarial gains from pension provisions rather than losses. This positive development was partially offset by €36 million higher operating expenses of €519 million and a more than €200 million lower net financial income of

€79 million, which included a €100 million general provision to cover potential risks. DekaBank's reported economic result incorporates several items not shown in the IFRS income statement, such as valuation gains and losses from hedged lending, actuarial gains and losses, potential charges, as well as interest expense related to AT1 bonds, to better represent the true economic position.

On an IFRS basis and following Moody's adjustments, DekaBank reported net income of €167 million in the first half of 2017, €19 million less than in corresponding prior year period. The return on tangible assets thus reached 0.35%, which we consider to be a sustainable run rate for DekaBank in the current low interest rate environment. As a result, we keep the assigned Profitability score in line with the ba2 historical score.

Wholesale funding dependence mitigated by strong access to savings banks and liquid balance sheet

DekaBank is highly dependent on wholesale funds. More than half of the bank's balance sheet is funded through interbank repo and other short-term products, specifically institutional deposits and commercial paper. This high dependence on confidence-sensitive wholesale funding sources is balanced by DekaBank's strong and recurring access to funds from the savings banks sector, substantial regular excess cash from its mutual funds franchise and high liquidity balances. The modest volume of €23 billion customer loans (as of June 2017) is sufficiently matched by medium- and long-term funds.

Structurally, DekaBank is slightly overfunded, with no liquidity shortfalls in short- and long-term buckets. Full coverage also applies in its combined stress scenario, a stress test introduced in compliance with domestic regulatory requirements. 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 material liquidity. To capture these benefits, we assign a Funding Structure score of ba3, four notches above the historical score, while the Combined Liquidity score is higher at baa3, reflecting the bank's ample liquid resources (the Liquidity Coverage Ratio stood at 159% as of June 2017).

DekaBank's Weighted Macro Profile is Strong+

DekaBank has exposures across Europe: 44% of total gross loans as of year-end 2016 related to its home market Germany, 14% to the UK, 11% to Luxembourg, 5% to France, 10% to other Eurozone countries, and 12% to other non-Eurozone EU countries (4% related to international organisations and exposures outside of Europe). Their weighted average results in a Strong+ Macro Profile for DekaBank, one notch below the Very Strong- Macro Profile of Germany.

Support and structural considerations

Affiliate support

DekaBank benefits from cross-sector support from S-Group. 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 consider the readiness of the sector to support DekaBank to be Very High, given the bank's 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 from the baa2 BCA to DekaBank's senior debt, deposit and subordinated instrument ratings, leading to an a3 Adjusted BCA.

Loss Given Failure analysis

DekaBank is subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider to be an Operational Resolution Regime. We therefore apply our Advanced LGF analysis, where we consider the risks faced by the different debt and deposit classes across the liability structure should the bank enter resolution.

In our LGF analysis, 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 and a 5% run-off in preferred deposits. These ratios are in line with our standard assumptions.

In line with the new German insolvency legislation, which effectively subordinated senior unsecured bonds and notes to deposits and senior-senior unsecured debt in resolution since January 2017, we base our calculation on the assumption that deposits and senior-senior debt are preferred to plain vanilla senior unsecured bonds.

For deposits and senior-senior unsecured bonds, our LGF analysis indicates an extremely low loss-given-failure, leading us to position their Provisional Rating Assessments at aa3, three notches above the a3 Adjusted BCA.

For senior unsecured debt, our LGF analysis indicates a very low loss-given-failure, leading us to position its Provisional Rating Assessment at a1, two notches above the a3 Adjusted BCA.

For senior subordinated debt, our LGF analysis indicates a high loss-given-failure, leading us to position its Provisional Rating Assessment at baa1, one notch below the a3 Adjusted BCA.

For the perpetual Additional Tier 1 notes issued in 2014, the Provisional Rating Assessment is positioned at baa3, three notches below the a3 Adjusted BCA, reflecting our framework for rating non-viability Contingent Convertible Securities.

Government support

Although German banks operate in an environment of materially weakened prospects for financial assistance from the government, we maintain one notch of rating uplift in our senior unsecured debt and deposit / senior-senior unsecured ratings for members of S-Group. This reflects our assumption of a Moderate support probability. Our government support assumptions reflect the large size and high systemic relevance of S-Group.

We estimate that the likelihood of junior debt instruments benefitting from systemic support will remain low, resulting in no uplift from the respective Preliminary Rating Assessment levels, translating into a Baa1 subordinated debt rating and a Baa3(hyb) non-cumulative preferred stock rating.

Counterparty Risk Assessment

The CR Assessment is an opinion of how counterparty obligations are likely to be treated if a bank fails, and is distinct from debt and deposit ratings in that it (1) considers only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default; and (2) applies to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g. swaps), letters of credit, guarantees and liquidity facilities.

DekaBank's CR Assessment is positioned at Aa2(cr)/P-1(cr)

The bank's CR Assessment is positioned four notches above the a3 Adjusted BCA, based on 1) the buffer against default provided by more subordinated instruments, primarily senior unsecured debt, to the senior obligations represented by the CR Assessment; and 2) government support uplift assuming a Moderate level of support. To determine the CR Assessment, we focus purely on subordination, taking no account of the volume of the instrument class.

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 methodology and scorecard factors

Exhibit 3

DEKABANK DEUTSCHE GIROZENTRALE

Macro Factors		
Weighted Macro Profile	**Strong +**	**100%**

Factor	Historic Ratio	Macro Adjusted Score	Credit Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	3.0%	a3	←→	baa2	Market risk	Quality of assets
Capital						
TCE / RWA	19.3%	aa2	←→	a3	Expected trend	Nominal leverage
Profitability						
Net Income / Tangible Assets	0.3%	ba2	←→	ba2	Expected trend	
Combined Solvency Score		a3		baa2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	64.0%	caa1	←→	ba3	Market funding quality	Term structure
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	37.1%	a1	←→	a3	Asset encumbrance	
Combined Liquidity Score		ba2		baa3		
Financial Profile				baa2		
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		

Balance Sheet is not applicable.

Debt class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Assessment	--	--	--	--	--	--	--	3	0	aa3 (cr)
Senior senior unsecured bank debt	--	--	--	--	--	--	--	3	0	aa3
Deposits	--	--	--	--	--	--	--	3	0	aa3
Senior unsecured bank debt	--	--	--	--	--	--	--	2	0	a1
Dated subordinated bank debt	--	--	--	--	--	--	--	-1	0	baa1
Non-cumulative bank preference shares	--	--	--	--	--	--	--	-1	-2	baa3 (hyb)

Instrument class	Loss Given Failure notching	Additional Notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Assessment	3	0	aa3 (cr)	1	Aa2 (cr)	--
Senior senior unsecured bank debt	3	0	aa3	1	Aa2	--
Deposits	3	0	aa3	1	Aa2	Aa2
Senior unsecured bank debt	2	0	a1	1	Aa3	--
Dated subordinated bank debt	-1	0	baa1	0	Baa1	--
Non-cumulative bank preference shares	-1	-2	baa3 (hyb)	0	Baa3 (hyb)	--

Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
DEKABANK DEUTSCHE GIROZENTRALE	
Outlook	Stable(m)
Bank Deposits	Aa2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Senior Unsecured -Dom Curr	Aa3
Subordinate -Dom Curr	Baa1
Pref. Stock Non-cumulative -Dom Curr	Baa3 (hyb)
Other Short Term -Dom Curr	(P)P-1

Source: Moody's Investors Service

Endnotes

1 The ratings shown are S-Group's Corporate Family Rating and outlook and its Baseline Credit Assessment

2 The rating shown is the Government of Germany's long-term issuer rating and outlook

REPORT NUMBER 1100947

Contacts

Gerson Morgenstern +49.69.7073.0796
Associate Analyst
gerson.morgenstern@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454