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CREDIT OPINION
2 August 2016

Update

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RATINGS

DekaBank Deutsche Girozentrale

Domicile	Frankfurt am Main, Germany
Long Term Debt	Aa3
Type	Senior Unsecured - Dom Curr
Outlook	Stable
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.

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DekaBank Deutsche Girozentrale

Semiannual update

Summary Rating Rationale

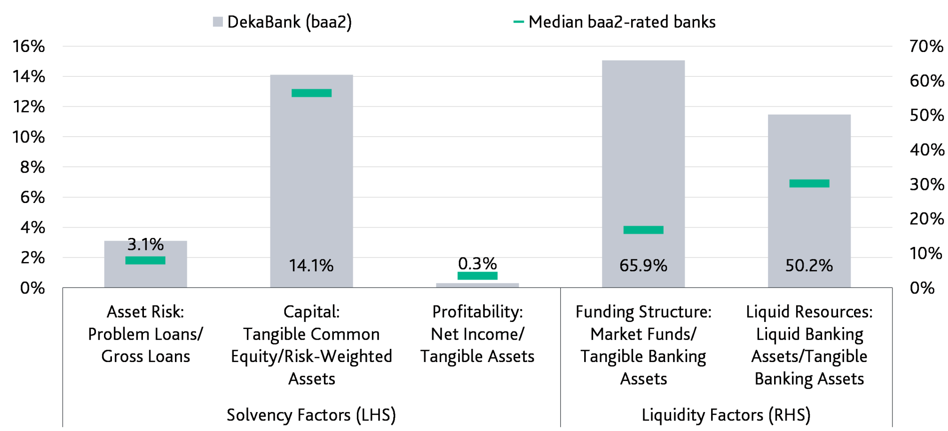
We assign Aa2/P-1 long- and short-term deposit ratings and Aa3/P-1 long- and short-term senior unsecured debt ratings to DekaBank Deutsche Girozentrale (DekaBank). We further assign a baa2 baseline credit assessment (BCA), an a3 adjusted BCA and a Aa2(cr)/P-1(cr) Counterparty Risk (CR) Assessment to DekaBank. Deka's subordinated debt is rated Baa1 and its perpetual Additional Tier 1 (AT1) notes are rated Baa3(hyb).

DekaBank's long-term senior unsecured debt and deposit ratings reflect: (1) the bank's baa2 BCA; (2) its a3 adjusted BCA, which incorporates our assumption of a very high affiliate support from Sparkassen-Finanzgruppe (S-Finanzgruppe, Aa2 stable, a2)[1], and which result in two notches of rating uplift; (3) the results of our Loss Given Failure (LGF) analysis, which provide three notches of rating uplift for deposits and two notches for senior debt from DekaBank's a3 adjusted BCA; and (4) our assumption of moderate government support, yielding one notch of additional government support uplift for DekaBank's debt and deposit ratings.

DekaBank's baa2 BCA reflects the group's modest asset risk, satisfactory regulatory capital ratios and solid funding position. At the same time, it also captures the bank's high, albeit materially improved, balance-sheet leverage.

Exhibit 1

Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

Credit Strengths

- Sound capitalisation backs low-risk asset profile, while leverage is improving
- High share of fee income stabilises profitability
- Highly liquid balance sheet
- Continued support from Sparkassen-Finanzgruppe
- Senior creditors benefit from ample subordinated instruments, which provide a buffer in resolution

Credit Challenges

- Manage dependence on wholesale funding
- Maintain capital buffers over and above the rising regulatory requirements
- Pressure on net interest income given the low interest-rate environment

Rating Outlook

- The outlook on the Aa2 long-term deposit ratings and the Aa3 long-term senior unsecured debt ratings is stable.
- The stable outlook reflects our anticipation of stability in implied creditworthiness of the bank's owners as well as existing cross-sector support mechanisms.

Factors that Could Lead to an Upgrade

- An upgrade of DekaBank's long-term debt and deposit 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 a significant improvement in the bank's absolute capital levels and its modest leverage ratio, 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 ratings because they already benefit from three notches of rating uplift from the bank's adjusted BCA, the highest possible.

Factors that Could Lead to a Downgrade

- A downgrade of DekaBank's long-term debt and deposit 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 current levels, or if profitability declines materially. We would expect, though, that a one-notch downgrade of the BCA would be offset by additional affiliate support.
- Negative pressure on the long-term debt ratings could arise if DekaBank's volume of unsecured and subordinated debt instruments decreases relative to total banking assets.

Key Indicators

Exhibit 2

DEKABANK DEUTSCHE GIROZENTRALE (Consolidated Financials) [1]

	12-15[2]	12-14[2]	12-13[3]	12-12[3]	12-11[3]	Avg.
Total Assets (EUR billion)	108.0	113.2	116.1	129.8	133.7	-5.2[4]
Total Assets (USD billion)	117.3	136.9	159.9	171.1	173.6	-9.3[4]
Tangible Common Equity (EUR billion)	4.4	4.1	3.7	3.5	3.3	7.6[4]
Tangible Common Equity (USD billion)	4.8	5.0	5.2	4.7	4.3	2.9[4]
Problem Loans / Gross Loans (%)	3.1	3.3	2.4	2.7	2.5	2.8[5]
Tangible Common Equity / Risk Weighted Assets (%)	14.1	14.7	16.7	15.0	13.1	14.4[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	15.1	17.9	16.8	21.9	22.4	18.8[5]
Net Interest Margin (%)	0.2	0.3	0.2	0.2	0.2	0.2[5]
PPI / Average RWA (%)	2.2	3.2	2.4	3.0	2.4	2.7[6]
Net Income / Tangible Assets (%)	0.3	0.5	0.3	0.3	0.2	0.3[5]
Cost / Income Ratio (%)	59.7	50.9	65.7	56.4	60.7	58.7[5]
Market Funds / Tangible Banking Assets (%)	65.9	69.1	70.3	77.3	77.2	72.0[5]
Liquid Banking Assets / Tangible Banking Assets (%)	50.2	43.7	45.4	45.6	45.9	46.1[5]
Gross loans / Due to customers (%)	77.2	85.3	99.1	132.7	130.7	105.0[5]

[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

Source: Moody's Financial Metrics

Detailed Rating Considerations

Sound capitalisation backs low-risk asset profile, and leverage has improved

The prospect of resilient core earnings and good capital retention capacity underpin our view that DekaBank will be able to improve its capital base further during 2016, following good progress made in 2015. Despite a satisfactory Common Equity Tier 1 (CET1) ratio and sound economic capital buffers, DekaBank's absolute capital base remains modest compared with similarly rated peers, based on its fully loaded regulatory leverage ratio of 4.0% as of December 2015. However, this ratio marks an improvement from the level as of year-end 2014. Additionally, the bank's current leverage is balanced by its generally sound asset profile, which benefits from the mostly secured nature of its lending to financial intermediaries.

The bank's 13.5% transitional CET1 ratio and the 12.4% fully loaded CET1 ratio as of December 2015 under the Capital Requirements Regulation and Directive (CRR/CRD IV), illustrate that DekaBank's regulatory capitalisation is satisfactory. While 2016 will likely see further improvement, changes to the Basel framework could result in pressure on capitalization levels in the coming years.

Notwithstanding DekaBank's lower-risk asset profile and strong mitigants to asset risks in the form of collateral, we take the view that its low 3.1% problem loan ratio does not adequately capture all relevant risks. To take account of risks relating to the bank's substantial market risk, we adjust the Asset Risk score downward to baa2. Our downward adjustment of the Capital score to baa1 captures the bank's relatively high TCE-based leverage (Tangible Common Equity relative to Tangible Assets), which was a modest 4.1% as of December 2015.

The bank's risk to capital, while not negligible, remains manageable. DekaBank runs considerable market risk related to investments and derivative positions, which represented 38% of the bank's risk-weighted assets (RWAs) as of December 2015. We acknowledge that RWA movements often reflect small duration mismatches of hedged positions (under the standardised approach for market risk, which DekaBank currently uses), rather than higher economic risk. However, we also note the resulting scope for capital ratio volatility. RWAs for market risk increased to €11.9 billion in 2015 from €10.4 billion in 2014 reflecting 38% of its total RWA.

High share of fee income stabilises profitability

Despite significant pressures on its net interest income (NII), DekaBank reported a solid net income of €330 million in 2015, which was mostly driven by strong fee income and partly non-recurring gains in the other operating income line. We expect that DekaBank's NII remains under pressure for an extended period given the low-yield environment, which is expressed in its ba2 Profitability score. Hence, in 2016, we foresee a weakening profitability trend, even though net sales in the mutual funds business are likely to remain robust.

Owing to its strong and profitable asset-management franchise, DekaBank's risk-adjusted profitability is so far 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 from asset-management activities, which accounted for 73% of core revenues (including the trading result) in 2015.

However, investors' rising risk aversion, resulting from extended high volatility in global markets, could have adverse implications on DekaBank's net sales performance of mutual and institutional funds. In addition, implementation of the Markets in Financial Instruments Directive (MiFID II), which will govern the permissibility of sales commission and other requirements for strengthening investor protection, could negatively affect DekaBank's profitability from 2017 onwards. Furthermore, the market shift towards passive investments could put a dent in the bank's asset-based margin in the future.

DekaBank reported an improved economic result of €611 million in 2015, a 13% year-over-year increase. This result benefitted from higher total income of €1.5 billion (+6%), which included a €229 million positive swing in the other operating income line, owing to actuarial pension provision gains and a one-off gain on the sale of a property. Total expenses of €914 million marked a 4% increase year-on-year, which was mostly driven by higher personnel expenses and a higher bank levy, partly offset by lower restructuring expenses. DekaBank's earnings quality remains robust, given that a 10% increase in fee and commission income to €1.1 billion could largely offset the 44% year-over-year erosion of NII to €183 million. The bank's reported economic result includes several items not shown in the IFRS income statement, such as valuation gains and losses from hedged lending, as well as issuance business to better represent the true economic position.

Wholesale funding dependence mitigated by strong access to savings banks and 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, 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 December 2015) 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 adjust the initial Funding Structure score to ba3, while the Combined Liquidity score is higher at baa3.

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 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 to DekaBank's debt, deposit and subordinated instrument ratings.

Loss Given Failure

DekaBank is subject to the EU Bank Recovery and Resolution Directive, 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 in 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 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 that will effectively subordinate senior bonds and notes to deposits in resolution from January 2017, we base our calculation on the assumption that deposits are preferred to most senior unsecured debt instruments.

For deposits, our LGF analysis indicates an extremely low loss-given-failure, leading to a three-notch uplift from the bank's a3 adjusted BCA.

For senior debt, our LGF analysis indicates a very low loss-given-failure, leading to a two-notch uplift from the bank's a3 adjusted BCA.

For senior subordinated debt, rated Baa1, our LGF analysis indicates a high loss-given-failure, leading to a positioning one-notch below the bank's adjusted BCA.

The perpetual Additional Tier 1 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

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 ratings for members of the Sparkassen-Finanzgruppe. This reflects our assumptions of a moderate support probability. Our government support assumptions reflect the large size and high systemic relevance of Sparkassen-Finanzgruppe.

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%**

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	3.1%	a3	← →	baa2	Market risk	
Capital						
TCE / RWA	14.1%	a1	↓	baa1	Nominal leverage	Expected trend
Profitability						
Net Income / Tangible Assets	0.3%	ba2	↓	ba2	Expected trend	
Combined Solvency Score		a3		baa2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	65.9%	caa1	← →	ba3	Market funding quality	Term structure
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	50.2%	aa2	← →	a3	Asset encumbrance	
Combined Liquidity Score		ba1		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	**in-scope (EUR)**	**% in-scope**	**at-failure (EUR)**	**% at-failure**
Other liabilities	58,951	54.7%	61,158	56.7%
Deposits	21,632	20.1%	19,426	18.0%
Preferred deposits	16,008	14.9%	15,207	14.1%
Junior Deposits	5,624	5.2%	4,218	3.9%
Senior unsecured bank debt	22,305	20.7%	22,305	20.7%
Dated subordinated bank debt	938	0.9%	938	0.9%
Junior subordinated bank debt				
Preference shares (bank)	730	0.7%	730	0.7%
Senior unsecured holding company debt				
Dated subordinated holding company debt				
Junior subordinated holding company debt				
Preference shares (holding company)				
Equity	3,234	3.0%	3,234	3.0%
Total Tangible Banking Assets	107,790	100%	107,790	100%

Debt class	De jure waterfall		De facto waterfall		Notching		LGF notching guidance versus 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	29.2%	29.2%	29.2%	29.2%	3	3	3	3	0	aa3 (cr)
Deposits	29.2%	4.5%	29.2%	25.2%	2	3	3	3	0	aa3
Senior unsecured bank debt	29.2%	4.5%	25.2%	4.5%	2	2	2	2	0	a1
Dated subordinated bank debt	4.5%	3.7%	4.5%	3.7%	-1	-1	-1	-1	0	baa1
Non-cumulative bank preference shares	3.7%	3.0%	3.7%	3.0%	-1	-1	-1	-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)	--
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
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-Finanzgruppe's Corporate Family Rating and outlook and its Baseline Credit Assessment

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