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CREDIT OPINION
30 June 2017

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

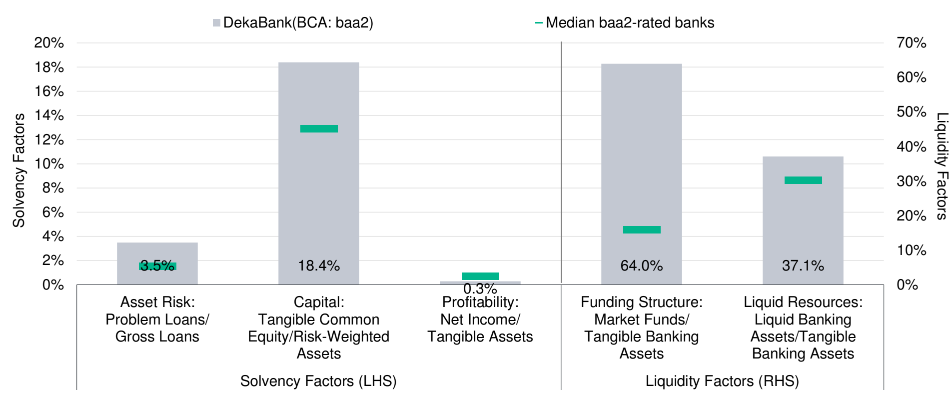
Summary Rating Rationale

We assign Aa2/P-1 deposit ratings and Aa3/P-1 senior unsecured 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 Additional Tier 1 (AT1) notes are rated Baa3(hyb).

DekaBank's s 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; and (4) our assumption of moderate government support, yielding one notch of additional government support uplift for DekaBank's senior debt and deposit ratings.

DekaBank's baa2 BCA reflects the group's modest credit risk and satisfactory to strong 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 and improving leverage

» High share of fee income stabilises profitability

» Core institution of Sparkassen-Finanzgruppe

Credit Challenges

» Maintain capital buffers despite rising regulatory requirements

» Pressure on net interest income given the low interest-rate environment

» Potential further write-down risks from legacy shipping exposures

» Manage dependence on wholesale funding

Rating Outlook

» The outlook on the Aa2 deposit ratings and the Aa3 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 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 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 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 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]

	12-16[2]	12-15[2]	12-14[2]	12-13[3]	12-12[3]	CAGR/Avg.[4]
Total Assets (EUR billion)	86	108	113	116	130	-9.8[5]
Total Assets (USD billion)	91	117	137	160	171	-14.7[5]
Tangible Common Equity (EUR billion)	4.4	4.3	3.9	3.7	3.5	6.1[5]
Tangible Common Equity (USD billion)	4.6	4.6	4.7	5.0	4.6	0.3[5]
Problem Loans / Gross Loans (%)	3.5	3.1	3.3	2.4	2.7	3.0[6]
Tangible Common Equity / Risk Weighted Assets (%)	18.4	13.6	14.0	16.3	14.7	15.3[7]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	17.1	15.6	18.8	17.2	22.3	18.2[6]
Net Interest Margin (%)	0.1	0.2	0.3	0.2	0.2	0.2[6]
PPI / Average RWA (%)	2.3	2.2	3.2	2.4	2.4	2.6[7]
Net Income / Tangible Assets (%)	0.3	0.3	0.5	0.3	0.2	0.3[6]
Cost / Income Ratio (%)	61.0	59.7	50.9	65.7	62.2	59.9[6]
Market Funds / Tangible Banking Assets (%)	64.0	65.9	69.1	70.3	77.3	69.3[6]
Liquid Banking Assets / Tangible Banking Assets (%)	37.1	50.2	43.7	45.4	45.6	44.4[6]
Gross Loans / Due to Customers (%)	99.0	77.2	85.3	99.1	132.7	98.6[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

Detailed Rating Considerations

Sound capitalisation and improving leverage backs somewhat deteriorating asset risk profile

As of December 2016, Deka reported a 16.7% fully loaded CET1 ratio under the Capital Requirements Regulation and Directive (CRR/CRD IV), up from 12.4% as of December 2015. The improvement in regulatory capitalization was mostly driven by the first time application of an internal model for the calculation of market price risk, which was reflected in the marked reduction in risk-weighted assets from €31.2 billion as of year-end 2015 to €23.8 billion as of year-end 2016. A further positive contributor to the improved capitalization levels was a rapid shrinkage of the balance sheet in the fourth quarter of 2016, as Deka chose not roll-over highly liquid market risk positions. As a result, the bank's leverage ratio improved from 4.0% at the end of 2015 to 5.1% at the end of 2016. While capitalization levels might increase further in 2017, changes to the Basel framework could result in pressure on capital ratios again in the years beyond. In addition, Deka plans to increase its balance sheet size again during 2017. Our assigned Capital score is therefore downward adjusted to baa1 from the currently high aa2 historic score to reflect any potential erosion in future capital levels and to anticipate that the leverage ratio will once again fall below our 5% threshold level. For 2017, Deka's minimum capital requirements determined by the Supervisory and Review Process (SREP) are 7.18% on a CET1 basis and 10.68% on a Total Capital basis.

While capitalization improved, Dekabank's asset risk profile has somewhat deteriorated on the back of the ongoing crisis in global shipping markets. The bank recorded 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 declined from €1.7 billion at the end of 2015 to €1.6 billion by the end of 2016 (representing 36% of Tangible Common Equity). While DekaBank is not impacted as much by the global shipping crisis as some of the other German ship lenders, its exposures, all underwritten prior to 2010, might create further write-downs during 2017 and beyond.

In addition to the bank's credit risk, DekaBank runs considerable market risk related to investments and derivative positions, which have declined substantially, though, as the bank de-levered during the fourth quarter of 2016 (trading assets declined from €33.2 billion at the end of 2015 to €14.6 billion at the end of 2016). Nonetheless, as the balance sheet is increased in size again, we believe that Deka will partly rebuild its market risk positions in addition to the planned expansion of its long-term, more illiquid lending book in the areas of commercial real estate and structured finance. 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 historic Asset Risk score of a3 downward to baa2.

High share of stable fee income provides earnings cushion

DekaBank reported net income of €264 million in 2016, materially below the €330 million and €555 million reported in 2015 and 2014, respectively. The continued decline in net interest income (NII) in the prevailing low interest rate environment, as well as the write-downs on the bank's legacy shipping portfolio left their mark in the results. In 2017, the NII development will likely remain subdued, while losses from the bank's shipping book might tail off and net sales in the mutual funds business are expected to remain robust. Overall, we thus forecast a flatish earnings development, which is expressed in our ba2 assigned Profitability score, in line with the historic score.

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 67% of net revenues during 2016. However, the 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 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.

DekaBank reported an economic result of €415 million during 2016, a 32% year-over-year decline. This result includes a deterioration in net interest income to €139 million (-24%), a stable commission income of €1.107 million and a substantially higher net financial income of €317 million (+57%), which includes components from the trading book portfolio, the results from valuation and disposals of the banking book portfolio, and the risk provisions for securities. Total expenses of €989 million marked an 8% increase year-on-year, which was mostly driven by higher regulatory costs and continued investments in the bank's multi-channel strategy. However, one of the main drivers of the deterioration in the economic result stemmed from the increase in loan loss provisions in 2016 to €195 million (vs. €65 million in 2015), which included the aforementioned €187 million write-downs from DekaBank's legacy shipping portfolio. The bank'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, as well as interest expense related to AT1 bonds, 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. 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 €22.8 billion customer loans (as of December 2016) 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 unsecured bonds and notes to deposits and senior-senior unsecured debt in resolution from January 2017, we base our calculation on the assumption that deposits and senior-senior bonds 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 to a three-notch uplift from the bank's a3 adjusted BCA.

For senior unsecured 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 / senior-senior 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%**

Factor	Historic Ratio	Macro Adjusted Score	Credit Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	3.5%	a3	←→	baa2	Market risk	Quality of assets
Capital						
TCE / RWA	18.4%	aa2	←→	baa1	Expected trend	Risk-weighted capitalisation
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		

null

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)
Deposits	--	--	--	--	--	--	--	3	0	aa3
Senior senior unsecured bank debt	--	--	--	--	--	--	--	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)	--
Deposits	3	0	aa3	1	Aa2	Aa2
Senior senior unsecured bank debt	3	0	aa3	1	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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