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CREDIT OPINION
5 January 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

Update following recent Rating Actions

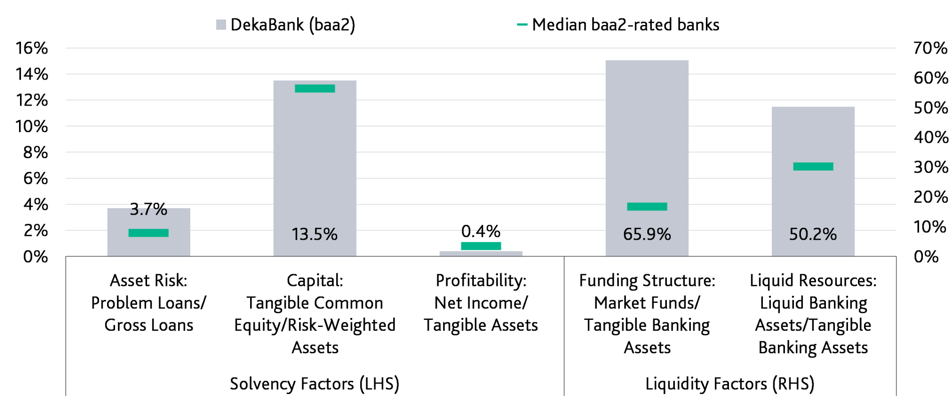
Summary Rating Rationale

On 21 November, we changed for certain debt instruments issued by DekaBank Deutsche Girozentrale (DekaBank) the seniority level to senior-senior unsecured debt from senior unsecured debt and upgraded their rating to Aa2 from Aa3. This changed and rating upgrade reflects Germany's revised insolvency framework in conjunction with a clarifying implementation guidance provided by the German regulator; the common characteristic of the upgraded instruments is that certain structural features make these harder to value, resulting in additional complexity in case of bail-in. We also assign Aa2/P-1 deposit ratings and Aa3/P-1 senior unsecured ratings to DekaBank, as well as a baa2 baseline credit assessment (BCA), an a3 adjusted BCA and a 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 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 satisfactory regulatory capital ratios and highly liquid balance sheet. 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

» Highly liquid balance sheet

» 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

» Further write-down risks from legacy shipping exposures

» Manage dependence on wholesale funding

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 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 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 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 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]

	6-16[2]	12-15[2]	12-14[2]	12-13[3]	12-12[3]	Avg.
Total Assets (EUR billion)	104.3	108.0	113.2	116.1	129.8	-5.3[4]
Total Assets (USD billion)	115.9	117.3	136.9	159.9	171.1	-9.3[4]
Tangible Common Equity (EUR billion)	4.2	4.3	3.9	3.7	3.5	5.1[4]
Tangible Common Equity (USD billion)	4.7	4.6	4.7	5.0	4.6	0.7[4]
Problem Loans / Gross Loans (%)	3.7	3.1	3.3	2.4	2.7	3.0[5]
Tangible Common Equity / Risk Weighted Assets (%)	13.5	13.6	14.0	16.3	14.7	13.7[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	18.6	15.6	18.8	17.2	22.3	18.5[5]
Net Interest Margin (%)	0.1	0.2	0.3	0.2	0.2	0.2[5]
PPI / Average RWA (%)	2.5	2.2	3.2	2.4	2.4	2.7[6]
Net Income / Tangible Assets (%)	0.4	0.3	0.5	0.3	0.2	0.3[5]
Cost / Income Ratio (%)	55.6	59.7	50.9	65.7	62.2	58.8[5]
Market Funds / Tangible Banking Assets (%)	60.9	65.9	69.1	70.3	77.3	68.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	46.2	50.2	43.7	45.4	45.6	46.2[5]
Gross loans / Due to customers (%)	67.2	77.2	85.3	99.1	132.7	92.3[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 and improving leverage backs somewhat deteriorating asset risk profile

The prospect of stabilising core earnings and good capital retention capacity underpin our view that DekaBank will be able to improve its capital base further during 2017, following good progress made in 2016. As of September 2016, the bank reported a 13.6% fully loaded CET1 ratio under the Capital Requirements Regulation and Directive (CRR/CRD IV), up from 12.4% as of December 2015. The bank's leverage ratio improved in lock-step from 4.0% at the end of 2015 to 4.6% at the end of September 2016, with increasing capital levels and a declining balance sheet size both driving improvements in the metric. While capitalization levels will likely increase further in 2017, changes to the Basel framework could result in pressure on capitalization again in the years beyond, though. Our assigned Capital score is therefore downward adjusted to baa1 from the a2 historic score to reflect any potential erosion in future capital levels and to deduct one notch for leverage, which is still below our 5% baseline requirement.

While capitalization improved, Dekabank's asset risk profile has somewhat deteriorated on the back of material write-downs on its legacy shipping portfolio in the first nine months of 2016. The bank's problem loan ratio increased from 3.1% as of December 2015 to 3.7% as of June 2016, and will have likely risen further by September 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 June 2016 (representing 38% 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 2009, will likely create further write-downs in the quarters to come.

In addition to the bank's credit risk, DekaBank runs considerable market risk related to investments and derivative positions, which represented 40% of the bank's risk-weighted assets (RWAs) as of June 2016. 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 €12.5 billion as of June 2016 from €11.9 billion at year-end 2015). Hence, to take account of risks relating to the bank's substantial market risk, we adjust the historic Asset Risk score of a3 downward to baa2.

High share of stable fee income provides earnings cushion

Despite a significant decline in 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. The first half of 2016, DekaBank's net profit of €193 million was 18% lower than in the first half of 2015, though, with the third quarter 2016 following the down-ward trend. Further pressure on the bank's NII and, in particular, write-downs of €123 million from legacy shipping exposures were the main negative drivers in the first nine months of 2016. In 2017, the NII development will likely remain subdued given the low-yield environment, 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 76% of core revenues (including the trading result) in the first nine months of 2016.

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 economic result of €349 million in the first nine months of 2016, a 23% year-over-year decrease. This result includes a deterioration in net interest income to €111 million (-23%), a stable provision income of €802 million and slightly decreased trading income of €226 million (-5%). Total expenses of €706 million marked a 3% increase year-on-year, which was mostly driven by higher personnel expenses as well as other operating expenses related to higher regulatory costs. However, one of the main drivers of the deterioration in the economic result stemmed from the increase in loan loss provisions in 9M 2016 to €143 million (€16 million in 9M 2015), which included the aforementioned €123 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. 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 €22 billion customer loans (as of June 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%**

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	3.7%	a3	←→	baa2	Market risk	
Capital						
TCE / RWA	13.5%	a2	←→	baa1	Nominal leverage	Expected trend
Profitability						
Net Income / Tangible Assets	0.4%	ba2	←→	ba2	Expected trend	
Combined Solvency Score		baa1		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 million)**	**% in-scope**	**at-failure (EUR million)**	**% at-failure**
Other liabilities	--	--	--	--
Deposits	--	--	--	--
Preferred deposits	--	--	--	--
Junior Deposits	--	--	--	--
Senior unsecured bank debt	--	--	--	--
Dated subordinated bank debt	--	--	--	--
Preference shares (bank)	--	--	--	--
Equity	--	--	--	--
Total Tangible Banking Assets	--	--	--	--

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	--	--	--	--	--	--	--	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

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	--

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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