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CREDIT OPINION

16 November 2020

Update

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**RATINGS**

**DekaBank Deutsche Girozentrale**

| | |
|---|---|
| Domicile | Frankfurt am Main, Germany |
| Long Term CRR | Aa2 |
| Type | LT Counterparty Risk Rating - Fgn Curr |
| Outlook | Not Assigned |
| Long Term Debt | Aa2 |
| Type | Senior Unsecured - Fgn 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 to credit analysis

## Summary

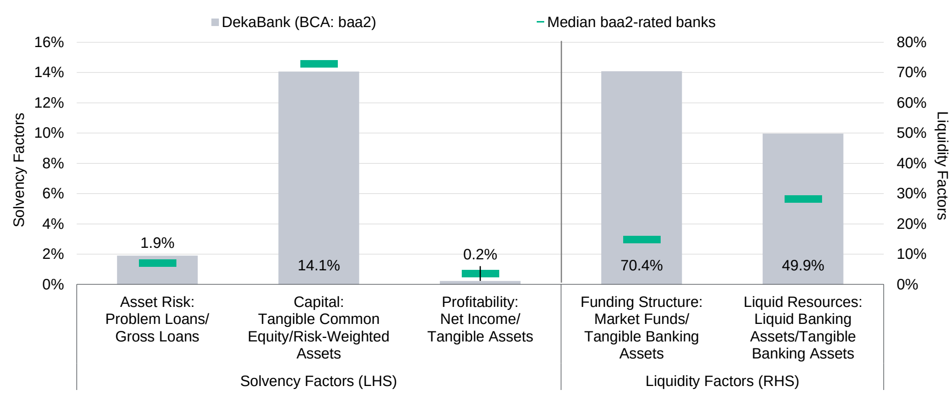
We assign Aa2(stable)/P-1 deposit and senior unsecured ratings, as well as A1 junior senior unsecured debt ratings to DekaBank Deutsche Girozentrale (DekaBank). We further assign a baa2 Baseline Credit Assessment (BCA), an a3 Adjusted BCA and Aa2/P-1 Counterparty Risk Ratings (CRRs).

DekaBank's Aa2 deposit and senior unsecured ratings reflect the bank's baa2 BCA; two notches of rating uplift from its membership in the institutional protection scheme of Sparkassen-Finanzgruppe (S-Finanzgruppe; Aa2 negative, a2[1]); the application of our Advanced Loss Given Failure (LGF) analysis to its liabilities, yielding three notches of rating uplift; and one notch of government support uplift, given its membership in systemically relevant S-Finanzgruppe.

DekaBank's baa2 BCA reflects the bank's sound risk-weighted capitalisation and low to moderate, but stable profitability, which mitigates the asset risk stemming from its commercial real estate (CRE), aircraft financing and shipping exposures. At the same time, the BCA incorporates the bank's high reliance on market funding, which is balanced, though, by its substantial stock of liquid assets. Our view of the bank's BCA could change in case of a further deterioration of its operating environment following renewed nationwide lockdowns because of the pandemic.

Exhibit 1

**Rating Scorecard - Key financial ratios**




*Source: Moody's Financial Metrics*

## Credit strengths

» High share of recurring fee income

» Robust net new asset growth in retail investment products

» Sound capitalisation

» Core institution of S-Finanzgruppe

## Credit challenges

» Rising asset risk from a growing CRE book and potential write-down risks from aircraft financing and the remaining shipping exposures

» Dependence on wholesale funding

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

» Competitive pressures in institutional fund distribution, aggravated by the success of passive investment alternatives for retail customers

## Outlook

The outlook on the ratings is stable, reflecting our expectation that the implied creditworthiness of DekaBank's owners will not decline by more than one notch and that existing cross-sector support mechanisms will remain unchanged; and that the bank's liability structure, which forms the basis for our Advanced LGF analysis, will remain broadly stable over the outlook horizon.

## Factors that could lead to an upgrade

» An upgrade of DekaBank's ratings could result from an upgrade of its Adjusted BCA or from a higher rating uplift as a result of our Advanced LGF analysis.

» A strengthening of DekaBank's BCA would likely be offset by less affiliate support uplift and, therefore, would not lead to an upgrade of the a3 Adjusted BCA. Consequently, upward pressure on the Adjusted BCA could only develop if the creditworthiness of S-Finanzgruppe improves, which is unlikely, given the negative outlook. DekaBank's BCA on its own could be upgraded in the event of an enduring improvement in the bank's capital levels, a significant improvement in its profitability and a pronounced reduction in its market funding reliance.

» Positive pressure from our LGF analysis could only arise on the junior senior unsecured ratings if DekaBank significantly increases its volume of subordinated instruments; deposit and senior unsecured ratings, as well as the CRRs, already incorporate the highest possible rating uplift of three notches.

## Factors that could lead to a downgrade

» A downgrade of DekaBank's ratings could be triggered by a lowering of the bank's BCA; a deterioration in the implied creditworthiness of its owners; and/or a reduction in the 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, the bank fails to maintain capital ratios at adequate levels or profitability declines further. An ever higher reliance on market funding or a weaker quality of market funding could also result in pressure on the BCA. However, we would expect a one-notch downgrade of the BCA to be offset by additional affiliate support, as long as S-Finanzgruppe's BCA is not lowered.

» Negative pressure on the debt and deposit ratings, as well as the CRRs, 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]**

| | 06-20[2] | 12-19[2] | 12-18[2] | 12-17[2] | 12-16[2] | CAGR/Avg.[3] |
|---|---|---|---|---|---|---|
| Total Assets (EUR Billion) | 106.1 | 97.2 | 100.4 | 93.8 | 86.0 | 6.2[4] |
| Total Assets (USD Billion) | 119.1 | 109.2 | 114.8 | 112.6 | 90.7 | 8.1[4] |
| Tangible Common Equity (EUR Billion) | 4.9 | 4.8 | 4.7 | 4.6 | 4.4 | 2.9[4] |
| Tangible Common Equity (USD Billion) | 5.5 | 5.3 | 5.4 | 5.5 | 4.6 | 4.8[4] |
| Problem Loans / Gross Loans (%) | 1.9 | 0.7 | 0.6 | 2.1 | 3.5 | 1.8[5] |
| Tangible Common Equity / Risk Weighted Assets (%) | 14.1 | 14.8 | 16.2 | 18.4 | 18.4 | 16.4[6] |
| Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%) | 10.7 | 3.8 | 3.3 | 9.2 | 17.1 | 8.8[5] |
| Net Interest Margin (%) | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1[5] |
| PPI / Average RWA (%) | 1.9 | 1.4 | 1.6 | 2.1 | 2.3 | 1.9[6] |
| Net Income / Tangible Assets (%) | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.2[5] |
| Cost / Income Ratio (%) | 64.7 | 74.1 | 72.9 | 68.2 | 61.0 | 68.2[5] |
| Market Funds / Tangible Banking Assets (%) | 66.1 | 70.4 | 69.4 | 63.4 | 64.0 | 66.7[5] |
| Liquid Banking Assets / Tangible Banking Assets (%) | 53.4 | 49.9 | 54.6 | 46.9 | 37.1 | 48.4[5] |
| Gross Loans / Due to Customers (%) | 100.8 | 136.2 | 105.4 | 78.0 | 99.0 | 103.9[5] |

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

*Sources: Moody's Investors Service and company filings*

## Profile

DekaBank Deutsche Girozentrale (DekaBank) is the securities service provider (Wertpapierhaus) for Sparkassen-Finanzgruppe (S-Finanzgruppe; on a combined basis, S-Finanzgruppe accounts for more than a third of the German banking system). As of 30 June 2020, DekaBank reported consolidated balance sheet assets of €106 billion, while its total customer assets, comprising off-balance sheet assets under management and structured notes, amounted to €310 billion (€155 billion from retail customers and €155 billion 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. As of 30 June 2020, DekaBank employed 4,662 employees (4,090 on a full-time equivalent basis), mainly operating from its headquarters in Frankfurt am Main and its most important foreign office in Luxembourg.

DekaBank was established on 1 January 1999 following the merger of 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 – Deutsche Sparkassen- und Giroverband ö.K. (DSGV ö.K., the German Savings Banks Association) and Deka Erwerbsgesellschaft mbH & Co. KG.

For more information, please see DekaBank's Issuer Profile and our German Banking System Profile.

### DekaBank's Weighted Macro Profile is Strong (+)

DekaBank has exposures mainly across Europe: 44% of total gross loans as of 30 June 2020 were located in its home market Germany, 28% in other euro area countries (3% in Italy and Spain), 14% in the UK, and the remainder (14%) in other countries outside the euro area. Their weighted average results in a Strong (+) Macro Profile for DekaBank, at the same level as the Strong (+) Macro Profile of Germany.

## Recent developments

The coronavirus pandemic will cause an unprecedented shock to the global economy. The full extent of the economic downswing will be unclear for some time; however, G-20 economies will contract in 2020. In Europe, the pandemic adds to late-cycle risks for European banks. The recession in 2020 will weigh on banks' asset quality and profitability. We expect fiscal policy measures, as already announced by a variety of euro area governments, to mitigate the economic contraction caused by the pandemic. During the current coronavirus pandemic-induced recession and its aftermath, capital levels will be a key differentiator of credit profiles among banks. Generally, banks are facing a sharp deterioration in asset quality and a decline in profitability from the already low levels, while central banks are providing extraordinary levels of liquidity and governments have strong incentives to support banking systems to foster an eventual recovery. Thus, when comparing a bank with its peers, the level of capital with which it entered this recession and its ability to retain capital throughout the next several years take on particular importance.

The European Central Bank (ECB) announced a series of measures to help EU economies weather the widening effects of the coronavirus pandemic, temporarily increasing banks' liquidity provisions, as well as lowering regulatory capital and liquidity requirements. As part of these temporary measures, the ECB increased its targeted long-term refinancing operations (TLTRO III) under more favourable terms, as well as its financial asset purchase programme, while refraining from lowering the ultralow interest rates further. The temporary suspension of buffer requirements for regulatory capital and the liquidity coverage ratio (LCR) gives banks greater flexibility and additional leeway to absorb the economic impacts, such as asset-quality declines. Overall, the package aims to help the banks continue to finance corporates and small and medium-sized businesses suffering from the effects of the pandemic. We believe that the ECB's measures will provide limited relief for banks and their borrowers, and that it will require significant fiscal policy measures by the EU and its member states to avert higher default rates in banks' lending books.

The Government of Germany (Aaa stable) launched a large stimulus package, and its support is crucial for corporate borrowers in industries immediately affected by the coronavirus pandemic, such as airlines, tourism, retail and the shipping sector, as well as smaller companies experiencing weak liquidity and high leverage. The scale of the support package is unprecedented and is far larger than the support provided during the 2008/09 financial crisis. At the same time, the government made it easier to access its short-time work scheme and extended it to a broader pool of workers, which will limit the spike in unemployment and the fall in domestic consumption. The measures, which are adapted according to the evolution of the economic effects of the pandemic, add to Germany's already expansionary fiscal policy stance, as well as to automatic stabilisers that support household income when unemployment increases.

On 18 September 2020, DekaBank announced the acquisition of the Austrian fund manager Spaengler IQAM Invest GmbH (IQAM). IQAM manages around 100 specialised and open funds with a volume of €7 billion as of year-end 2019, and has 60 employees. The entity specialises in quantitative asset management.

Because of the turmoil caused by the coronavirus pandemic, S-Finanzgruppe had announced on 19 March 2020 that the talks between DekaBank and Landesbank Hessen-Thueringen GZ (Helaba; Aa3/Aa3 stable, baa2[2]) about a closer cooperation or even a potential merger would be called off for the time being.

## Detailed credit considerations

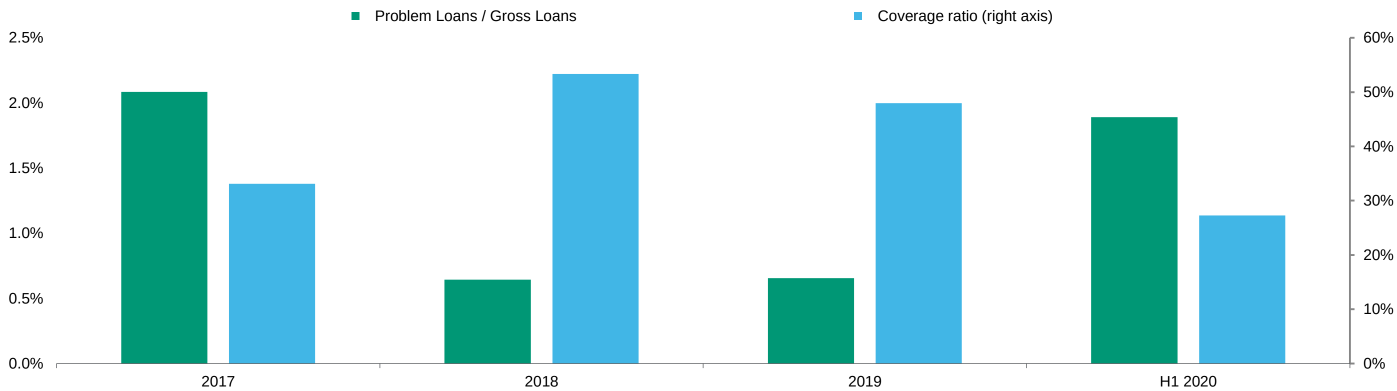
### Asset risk from legacy shipping exposures declined, but CRE exposures increased

We assign a baa3 Asset Risk score, five notches below the a1 initial score (which is conditioned by the bank's Strong (+) Weighted Macro Profile), to reflect DekaBank's credit risks from illiquid lending positions and its market risk profile.

Because of the economic shock caused by the coronavirus pandemic, the bank experienced a marked increase in problem loans to 1.9% of gross loans in the first half of 2020, from 0.7% as of year-end 2019. Of the €533 million nonperforming exposures as of mid-2020, €324 million relate to the transport and export finance business, €163 million stem from the property portfolio and €46 million are from the energy and utility infrastructure business.

Exhibit 3

**Nonperforming loans increased markedly because of the coronavirus pandemic-induced shock**




The problem loan ratio is as per our definition.

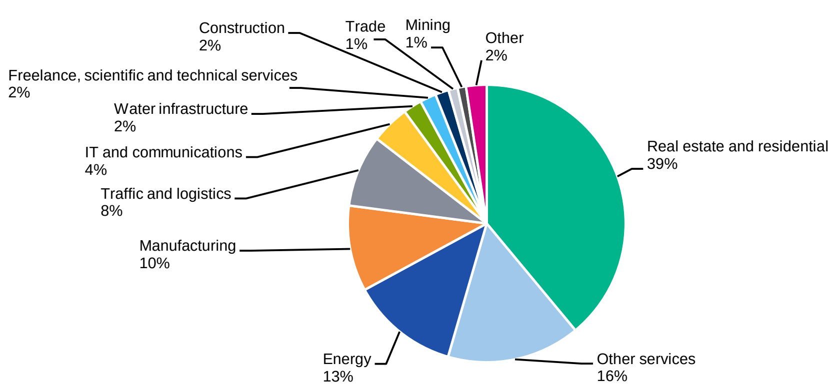
*Sources: Company reports and Moody's Investors Service*

DekaBank's transport finance book consists of ship and aircraft financing. This segment has been particularly affected by the economic downturn. DekaBank's ship finance book decreased to €1.3 billion (representing 27% of the bank's tangible common equity [TCE]) as of the end of June 2020, from €1.4 billion as of year-end 2019 (2018: €1.1 billion and 2017: €1.2 billion). Of its gross exposures, €0.1 billion related to legacy ship financing loans underwritten before 2010 and €1.2 billion represented positions originated after a change in its lending risk strategy. The legacy portfolio's share has declined steadily over recent years, and the reduction in legacy shipping loans has been a key driver of declining nonperforming loans (NPLs) until year-end 2019. Aircraft financing was €3.4 billion as of June 2020, representing 70% of TCE, down from €3.5 billion as of year-end 2019.

Exhibit 4

**DekaBank's credit exposures are focused on financials, its non-financials exposures contain a high contribution of the real estate sector**

**Breakdown of performing gross loans before risk provisions by industry, excluding the financial and public sectors, H1 2020**




*Sources: June 2020 Pillar 3 disclosure report and Moody's Investors Service*

In addition to the bank's transport financing exposures, DekaBank runs a sizeable CRE book with €8.5 billion of direct exposures and €2.4 billion of loans to open-ended property funds, which, on a combined basis, decreased by €0.3 billion or 3% during the first six months of 2020 and represented 225% of TCE as of June 2020. Further credit risk stems from the bank's infrastructure financing portfolio, which shrunk by €0.3 billion to €3.7 billion (76% of TCE) during the corresponding period. In addition, the bank's savings banks financing book, which is low risk, declined to €3.0 billion as of June 2020, from €3.3 billion as of December 2019.

Apart from the bank's credit risk, DekaBank runs considerable market risk related to investments and derivative positions. Accordingly, potential dislocations in capital markets that are more severe than those seen in H1 2020 represent tail risks for the bank's securities financing business. In addition, DekaBank is in the process of expanding its long-term, more illiquid lending book in the areas of CRE and structured finance, which confer higher margins, but also higher risks. Hence, to take account of the credit risks stemming from its lending portfolio, as well as the bank's substantial market risk and changing asset-risk profile overall, we adjust the initial Asset Risk score of a1 downward by five notches to baa3.

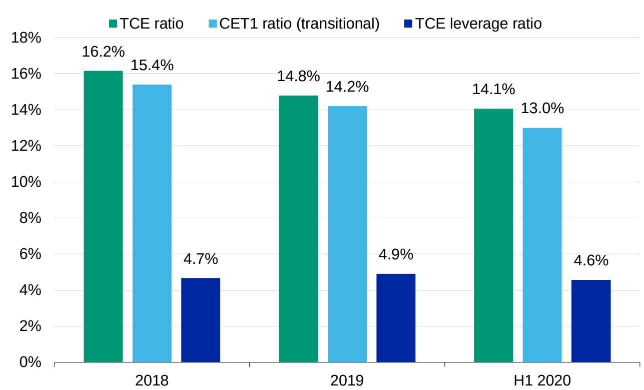
### Capitalisation remains sound despite decline due to balance sheet expansion

We assign an a2 Capital score, one notch below the a1 initial score, to take into account the bank's sound capitalisation despite growing risk-weighted assets (RWA), as well as its relatively low leverage ratio.

As of June 2020, DekaBank's TCE ratio declined to 14.1% from 14.8% as of year-end 2019. At the same time, the bank reported a 13.0% fully loaded Common Equity Tier 1 (CET1) capital ratio, a decline from 14.2% recorded as of December 2019. Its CET1 capital decreased by 2% in H1 2020, while its RWA increased by 7% because of a 5% rise in credit risk RWA and an 11% rise in market risk RWA. Increases in both types of RWA reflected higher volatility and spread risk in capital markets and higher credit risk because of the pandemic. At the same time, the balance sheet expanded by €8.8 billion, or 9%, to €106 billion in H1 2020, leading to a lower regulatory fully loaded leverage ratio of 4.5% as of June 2020, down from 4.9% as of December 2019 (TCE/tangible assets declined to 4.6% from 4.9% over the same period).

Exhibit 5

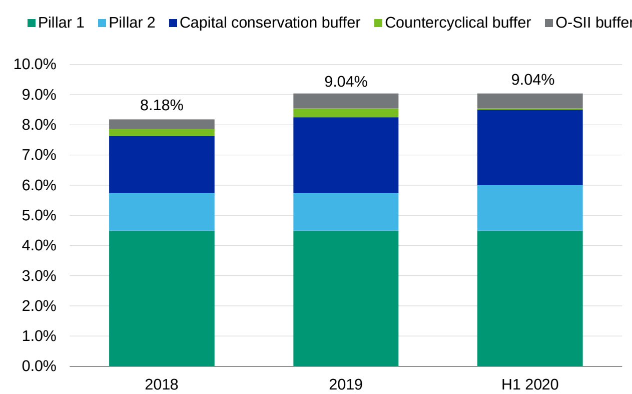
**Declining capital and leverage ratios because of balance-sheet expansion**




TCE = Tangible common equity (our calculation); CET1 = Common Equity Tier 1 (fully loaded).
*Sources: Company reports and Moody's Investors Service*

Exhibit 6

**DekaBank's CET1 requirements**




*Source: Company reports*

Our assigned a2 Capital score, one notch below the a1 initial score, takes into account the bank's TCE leverage ratio, which remains below our 5% threshold level, as well as its sound capitalisation despite the steady increase in RWA and lower capital ratios in recent years. We also note a potential negative impact on capital ratios from certain legal risks, mainly stemming from investigations into past transactions in German stocks near the dividend payment dates. As of June 2020, DekaBank's minimum capital requirements determined by the Supervisory and Review Process (SREP) were 9.04% on a CET1 basis and 12.54% on a total capital basis, which DekaBank comfortably exceeded at all times.

### High share of stable fee income provides earnings buffer

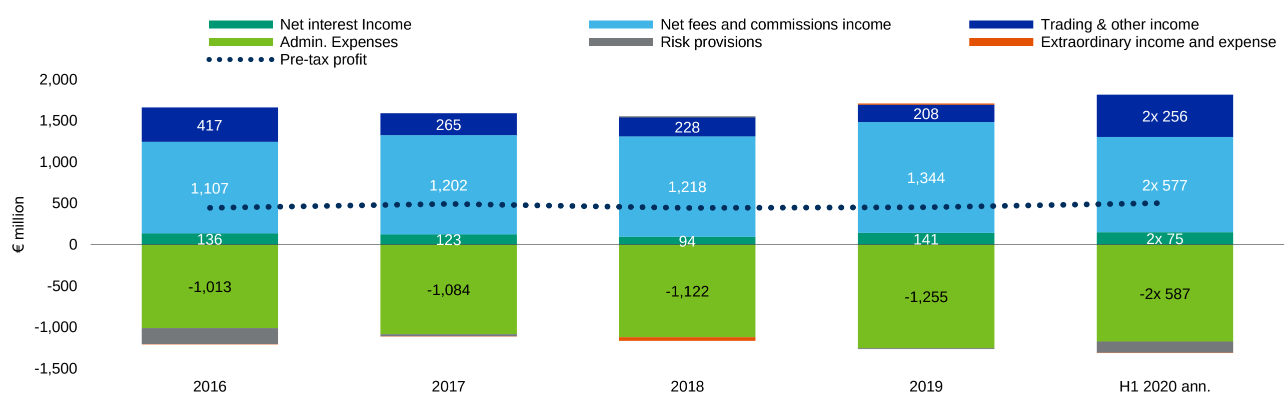
We assign a ba3 Profitability score, one notch above the initial score, reflecting DekaBank's lower but positive earnings in a difficult economic and capital market environment and our expectation that the bank will be able to improve its profitability moderately in an environment marked by stabilising economic activity.

Based on our adjusted financials, DekaBank achieved a net income of €119 million in H1 2020, €21 million less than that in H1 2019. Net commission income, the bank's main profitability driver, dropped by €15 million (2%) to €577 million in H1 2020 from H1 2019, because commission expenses have increased more than income. Net interest income in H1 2020 improved by 12% to €89 million, but higher loan-loss provisions of €69 million (H1 2019: €11 million) brought its net interest income after provisions to €20 million, down from €65 million in H1 2019. For its financial income, the bank improved its trading profit to €279 million in H1 2020, up from €48 million in the year-earlier period, but made a loss on financial instruments mandatorily measured at fair value of €29 million, after a gain of €100 million in H1 2019.

The fee income from its strong and profitable asset management franchise has proven to be an important buffer for credit and market-related losses, even as a shift towards passive investments could hurt the bank's asset-based margin in the long term. As the preferred retail asset manager of the savings banks sector and a leading provider of institutional investment funds, DekaBank's net fee and commission income accounted for 64% of net revenue in H1 2020. Net new asset growth from the bank's actively managed retail investment products increased significantly in H1 2020 from that in the year-earlier period (up 56% to €6.9 billion), while the bank's institutional franchise also saw significant growth in net new asset generation (up 233% to €7.5 billion). Despite the inflow, total customer assets have decreased to €310 billion in H1 2020, down 1.2% from that as of year-end 2019, because of lower valuations.

Exhibit 7

**Net fee and commission income supports earnings; trading income improved**




H1 2020 data is annualised.

*Sources: Company reports and Moody's Financial Metrics*

In addition to its results under IFRS DekaBank reports an economic result to better represent the true economic position. This non-GAAP pre-tax measure 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, with the latter also being re-classified to interest expenses in our adjusted financials.

DekaBank's first half 2020 economic pre-tax result of €162.5 million (down from €223.1 million in H1 2019) was €81.5 million (H1 2019: €36.6 million) lower than the bank's IFRS pre-tax result, mainly as a result of a €70.4 million lower financial result. Thereof, €50 million represented an additional general provision to cover potential risks not yet booked under IFRS.

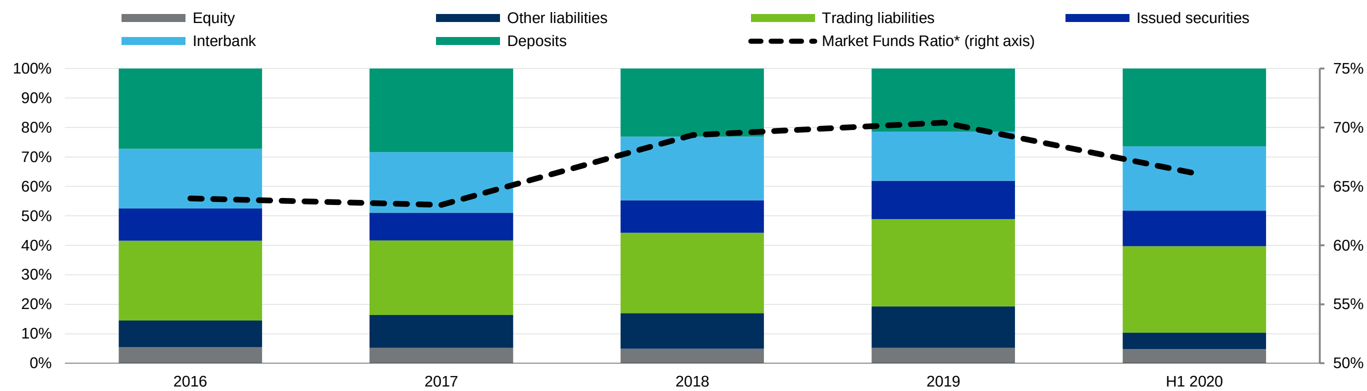
### Wholesale funding dependence mitigated by strong access to sector funding

We assign a ba3 Funding Structure score, six notches above the caa3 initial score, incorporating the bank's access to additional funding resources and the expected trend.

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, as well as substantial regular excess cash from its mutual funds franchise. The still-modest volume of €28 billion of customer loans (as of June 2020) is sufficiently matched by medium- and long-term funds.

Exhibit 8

**Composition of market funding sources**




*Market funds ratio = market funds/tangible banking assets.
*Sources: Company reports and Moody's Investors Service*

In H1 2020, the bank's funding mix changed significantly, but we expect to see at least a partial reversal once operating conditions normalise. Money market securities outstanding fell to €3.1 billion from €10.7 billion as of year-end 2019, and they were replaced by amounts due to customers, which grew to €29.4 billion from €23.7 billion six months earlier, as well as interbank funding, which grew to €25.9 billion from €17.5 billion, driven mainly by higher daily and time deposits and repo transactions.

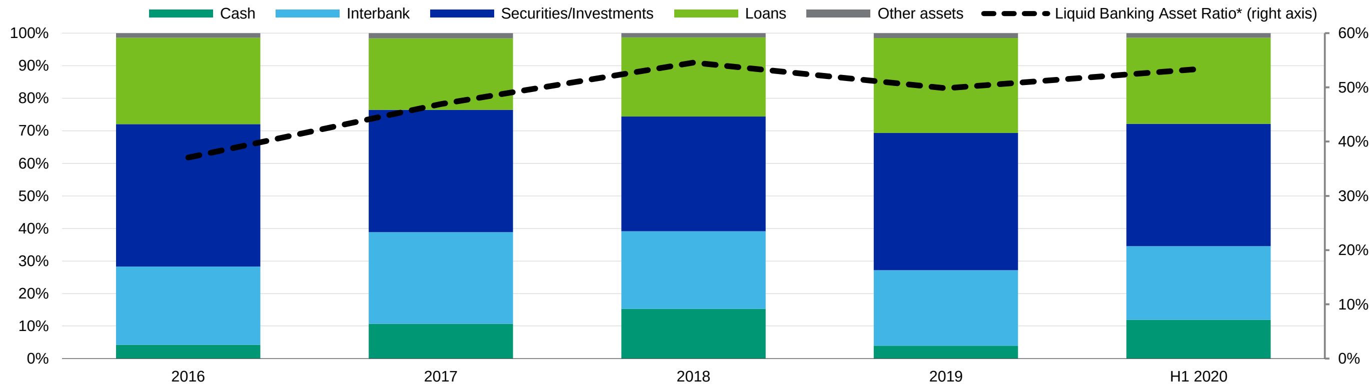
### Highly liquid balance sheet despite asset encumbrance

We assign an aa3 Liquid Resources score, at the level of the initial score, taking into account asset encumbrance and the expected trend.

About half of DekaBank's balance sheet can be considered liquid, reflecting securities lending and reverse repo balances, cash, and trading positions, although they are partly encumbered. 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, which pointed to a liquidity surplus under stress of €12.3 billion over a three-month horizon as of 30 June 2020. The bank's ample liquid resources are also expressed in its liquidity coverage ratio (LCR), which reached an average of 165% in H1 2020 and was 149% as of 30 June 2020 (139% was the lowest and 200% was the highest level recorded during this period). We expect the level of liquid assets to remain close to or above 50%.

Exhibit 9

**Composition of liquid assets**




*Liquid banking assets ratio = liquid assets/tangible banking assets.

*Sources: Company reports and Moody's Investors Service*

## Environmental, social and governance (ESG) considerations

In line with our general view of the banking sector, DekaBank has low exposure to environmental risks (see our environmental risk heat map[3] for further information).

In terms of social risks, we also place DekaBank in line with our general view of the banking sector, which indicates moderate exposure (see our social risk heat map[4]). This includes considerations in relation to the rapid and widening spread of the coronavirus pandemic, given the substantial implications for public health and safety, and the deteriorating global economic outlook, which is creating a severe and extensive credit shock across many sectors, regions and markets.

Corporate governance[5] is highly relevant for DekaBank, as it is to all issuers in the banking industry. DekaBank shows an appropriate risk management framework relating to its risk appetite. Despite its past involvement in a tax evasion scheme around dividend payments, we do not have any particular governance concern for the bank, and do not apply any corporate behavior adjustment for DekaBank. Nonetheless, corporate governance remains a key credit consideration given new emerging risks and continues to be a subject of our ongoing monitoring.

## Support and structural considerations

### Affiliate support

DekaBank benefits from cross-sector support from S-Finanzgruppe. Cross-sector support significantly 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 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, leading to an a3 Adjusted BCA.

### Loss Given Failure (LGF) analysis

DekaBank is subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider an operational resolution regime. Therefore, we 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 line with our standard assumptions, we assume a residual TCE of 3% and post-failure losses of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits before failure, and a 5% run-off of preferred deposits.

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

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

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

» For the perpetual Additional Tier 1 notes issued in 2014, the Preliminary 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 considerations

Following the introduction of the BRRD, we have lowered our expectation of the degree of support the government might provide to a bank in Germany in the event of need. Because of its size on a consolidated basis, we consider S-Finanzgruppe systemically relevant and, therefore, attribute a moderate probability of government support for all members of the sector, in line with our support assumptions for other systemically relevant banking groups in Europe. We, therefore, still include one notch of government support uplift in our CRRs, senior unsecured debt and deposit ratings of S-Finanzgruppe member banks that are incorporated in Germany, including DekaBank. For junior securities, we believe that the likelihood of government support is low, and these ratings do not include any related uplift.

### Counterparty Risk Ratings

Counterparty Risk Ratings (CRRs) are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRRs are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements.

#### DekaBank's CRRs are positioned at Aa2/P-1

The CRRs, before government support, are positioned three notches above the Adjusted BCA of a3, reflecting the extremely low loss-given-failure from the high volume of instruments, primarily junior senior unsecured debt, that are subordinated to CRR liabilities. DekaBank's CRRs also benefit from one notch of rating uplift provided by government support, in line with our support assumptions on deposits and senior unsecured debt.

### Counterparty Risk Assessment

The Counterparty Risk Assessment (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 (for example, 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, incorporating three notches of uplift derived from the buffer against default provided by more subordinated instruments, primarily junior senior unsecured debt, to the senior obligations represented by the CR Assessment; and one notch of 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.

## Methodology and scorecard

### Methodology

The principal methodology used in rating DekaBank was our Banks Methodology, published in November 2019.

### About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement 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 10

**DekaBank Deutsche Girozentrale**

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

| **Factor** | **Historic Ratio** | **Initial Score** | **Expected Trend** | **Assigned Score** | **Key driver #1** | **Key driver #2** |
|---|---|---|---|---|---|---|
| Solvency | | | | | | |
| Asset Risk | | | | | | |
| Problem Loans / Gross Loans | 1.9% | a1 | ↔ | baa3 | Sector concentration | Market risk |
| Capital | | | | | | |
| Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded) | 14.1% | a1 | ↔ | a2 | Nominal leverage | Expected trend |
| Profitability | | | | | | |
| Net Income / Tangible Assets | 0.2% | b1 | ↑ | ba3 | Expected trend | Return on assets |
| Combined Solvency Score | | a3 | | baa2 | | |
| Liquidity | | | | | | |
| Funding Structure | | | | | | |
| Market Funds / Tangible Banking Assets | 70.4% | caa3 | ↑ | ba3 | Market funding quality | Expected trend |
| Liquid Resources | | | | | | |
| Liquid Banking Assets / Tangible Banking Assets | 49.9% | aa3 | ↔ | aa3 | Asset encumbrance | Expected trend |
| Combined Liquidity Score | | ba3 | | 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 | | |
| BCA Scorecard-indicated Outcome - 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 Rating | - | - | - | - | - | - | - | 3 | 0 | aa3 |
| Counterparty Risk Assessment | - | - | - | - | - | - | - | 3 | 0 | aa3 (cr) |
| Deposits | - | - | - | - | - | - | - | 3 | 0 | aa3 |
| Senior unsecured bank debt | - | - | - | - | - | - | - | 3 | 0 | aa3 |
| Junior senior unsecured bank debt | - | - | - | - | - | - | - | 2 | 0 | a1 |
| Dated subordinated bank debt | - | - | - | - | - | - | - | -1 | 0 | baa1 |
| Non-cumulative bank preference shares | - | - | - | - | - | - | - | -1 | -2 | baa3 |

| Instrument Class | Loss Given Failure notching | Additional notching | Preliminary Rating Assessment | Government Support notching | Local Currency Rating | Foreign Currency Rating |
|---|---|---|---|---|---|---|
| Counterparty Risk Rating | 3 | 0 | aa3 | 1 | Aa2 | Aa2 |
| Counterparty Risk Assessment | 3 | 0 | aa3 (cr) | 1 | Aa2(cr) | |
| Deposits | 3 | 0 | aa3 | 1 | Aa2 | Aa2 |
| Senior unsecured bank debt | 3 | 0 | aa3 | 1 | Aa2 | Aa2 |
| Junior senior unsecured bank debt | 2 | 0 | a1 | 0 | A1 | |
| Dated subordinated bank debt | -1 | 0 | baa1 | 0 | Baa1 | |
| Non-cumulative bank preference shares | -1 | -2 | baa3 | 0 | Baa3 (hyb) | |

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
*Source: Moody's Investors Service*

## Ratings

Exhibit 11

| Category | Moody's Rating |
|---|---|
| **DEKABANK DEUTSCHE GIROZENTRALE** | |
| Outlook | Stable |
| Counterparty Risk Rating | Aa2/P-1 |
| Bank Deposits | Aa2/P-1 |
| Baseline Credit Assessment | baa2 |
| Adjusted Baseline Credit Assessment | a3 |
| Counterparty Risk Assessment | Aa2(cr)/P-1(cr) |
| Issuer Rating | Aa2 |
| Senior Unsecured | Aa2 |
| Junior Senior Unsecured -Dom Curr | A1 |
| Junior Senior Unsecured MTN -Dom Curr | (P)A1 |
| Subordinate -Dom Curr | Baa1 |
| Pref. Stock Non-cumulative -Dom Curr | Baa3 (hyb) |
| Commercial Paper -Dom Curr | P-1 |
| 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 BCA.

2 The ratings shown are Helaba's deposits/senior unsecured ratings and outlook, and its BCA.

3 Environmental risks can be defined as environmental hazards encompassing the impacts of air pollution, soil/water pollution, water shortages, and natural and man-made hazards (physical risks). Additionally, regulatory or policy risks — such as the impact of carbon regulation or other regulatory restrictions, including the related transition risks such as policy, legal, technology and market shifts — that could impair the evaluation of assets are an important factor. Certain banks could face a higher risk from concentrated lending to individual sectors or operations exposed to the aforementioned risks.

4 Social risk considerations represent a broad spectrum, including customer relations, human capital, demographic and social trends, health and safety, and responsible production. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which are mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct are further social risks. Social trends are

also relevant in a number of areas, such as shifting customer preferences towards digital banking services increasing information technology costs, ageing population concerns in several countries affecting demand for financial services or socially driven policy agendas translating into regulations that affect banks' revenue bases.

5 Corporate governance is a well-established key driver for banks, and the related risks are typically included in our evaluation of the banks' financial profile. Further factors such as specific corporate behaviour, key-person risk, insider and related-party risk, strategy and management risk factors, and dividend policy may be captured in individual adjustments to the BCA, if deemed applicable. When credit quality deteriorates because of poor governance, such as a breakdown in controls resulting in financial misconduct, it can take a long time to recover.

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