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DekaBank Deutsche Girozentrale

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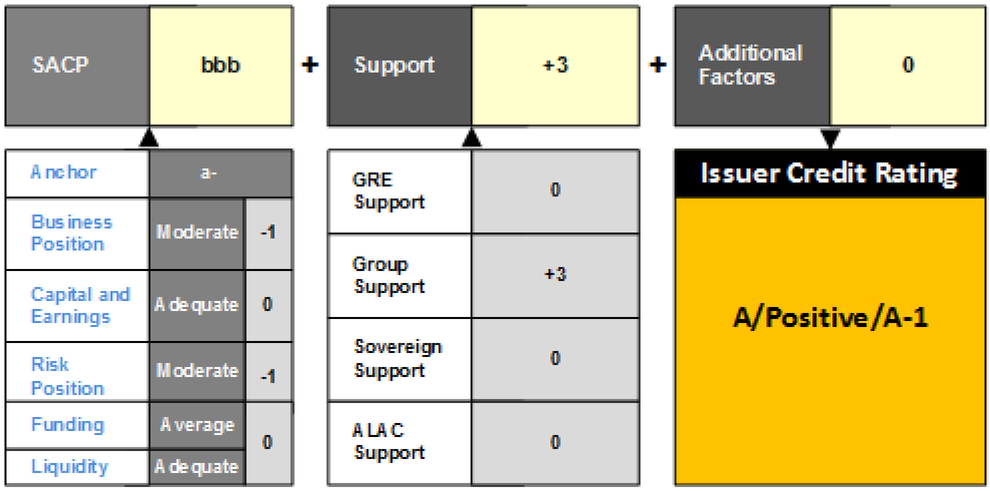
Table Of Contents

DekaBank Deutsche Girozentrale



ALAC--Additional loss-absorbing capacity.

Major Rating Factors

Counterparty Credit Rating
A/Positive/A-1

Strengths:	Weaknesses:
• Expected extraordinary group support from its German savings banks owners if needed. • One of the leading domestic asset managers, benefitting from integration into the German savings bank sector. • Adequate capital and liquidity compared with other German commercial banks.	• Potential earnings volatility due to credit spread risk and fairly concentrated commercial business. • Reliance on wholesale funding. • Recovery of mutual fund performance still relatively recent after several years of substandard performance compared with other asset managers.

Outlook

Standard & Poor's Ratings Services' outlook on Deutsche Girozentrale (DekaBank), Germany-based provider of asset management and securities services for savings banks, is positive. DekaBank's ultimate owners are the group of German savings banks, which took over the bank in 2011. The positive outlook reflects the potential that we might reassess DekaBank as a "core" member of the group of German savings banks in the next 18-24 months, which would lead to a one-notch upgrade.

Such an upgrade would require a longer track record of its strategic initiatives enhancing its product penetration with the savings banks and making it integral to the overall strategy of the savings banks group. Indicators would be if the German savings banks fully adopted DekaBank's enlarged investment and advisory process offering, thereby strengthening the share of securities-related business with their retail customers. This would ultimately be reflected in a further increase of the commission income earned by the savings banks from sales of DekaBank products ("Verbundleistung"), which was about €900 million in 2014. Continued strategic stability, a sound financial risk profile, and sound investment performance in its fund business would also be conditions for an upgrade.

Conversely, we could consider revising the outlook to stable if we concluded that DekaBank's strategic initiatives had not borne fruit and therefore had not materially changed its current level of integration into the German savings banks sector.

Rationale

We base our ratings on DekaBank on our expectation that the bank's strategy will continue to focus on strengthening its product offering and its integration with the group of German savings banks. Therefore, the ratings on DekaBank are three notches higher than its 'bbb' stand-alone credit profile (SACP), based on our assumption that the German savings banks would provide support to DekaBank, if needed. We consider DekaBank's group status as "highly strategic" within the German savings banks.

The 'bbb' SACP reflects our assumption that DekaBank will maintain its sound position as one of largest asset managers in Germany. The bank's stable presence is the main pillar of its future strategy, in our opinion. The bank's decreasing share of noncore operations backs our view that DekaBank continues to further itself from its past substandard performance.

We consider DekaBank's business position to be "moderate," given that its sound market position in retail asset management products is limited to the savings banks network in Germany and is outweighed by its below-average market position in commercial banking. In particular, in our view, its commercial banking activities are not always linked to its core asset-management business.

We project that the bank will maintain "adequate" capitalization against its diverse business risk as an asset manager, reflecting limited lending growth and continued earnings retention as capital.

DekaBank's risk position is "moderate," in our view, based on its loan book concentration in commercial segments with generally higher risk, like shipping, as well as its noncore portfolio which comprises structured products and discontinued commercial business segments, as well as related credit spread risks. We also consider that its capital ratios could underestimate its exposure to reputational and operational risks.

We anticipate that DekaBank will continue to prudently manage its funding and liquidity risk, leading to our "adequate" and "average" assessments.

Anchor: 'a-' for banks operating in Germany

Under our bank criteria, we use our Banking Industry Country Risk Assessment's economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a commercial bank operating only in Germany is 'a-', based on an economic risk score of '1' and an industry risk score of '3'.

Our economic risk assessment reflects Germany's highly diverse and competitive economy and lack of major economic imbalances. An export-led economy, Germany remains vulnerable to swings in global economies, trade flows, and capital market trends, however.

Industry risk benefits from Germany's extensive funding market and banks' domestic funding surpluses from low domestic credit growth and high savings rates. However, the sector's competitive dynamics result in relatively low profitability, which is fueled by significant disparities in commercial targets and the business and risk profiles of market players.

In contrast to other commercial banks, we regard DekaBank as being primarily an asset manager with adjacent commercial lending activities. To assess the economic risk for DekaBank, we therefore analyze the weighted average of its total assets rather than only its loans to private-sector non-banks in each country. About 43% of DekaBank's exposures are in countries with weaker economic risk scores than that on Germany. Consequently, our weighted economic risk score for DekaBank is weaker than that for German lending institutions with higher proportions of domestic loans. Still, we maintain the anchor for DekaBank in line with the 'a-' anchor we assign to commercial banks operating solely in Germany. Furthermore, we envisage a limited likelihood of the anchor being revised downward going forward.

We believe that the prospect of extraordinary government support for U.K., German, and Austrian banks is now "uncertain" following the full implementation of the EU Bank Recovery and Resolution Directive (BRRD) in these countries. This assessment takes into account our view that:

- These governments have become significantly less willing to use taxpayer funds to bail-out banks;
- Complex systemic banks in these countries are generally not yet "resolvable," meaning that a disorderly resolution or insolvency could carry systemic consequences;
- Even if these governments wished to provide capital support to a failed systemic bank, however, the bank resolution frameworks now implemented in these countries in response to the BRRD heavily constrain these governments' capacity to provide such support without substantial burden-sharing by creditors; and

- Some senior creditors face substantial risk of being mandatorily bailed-in as part of that process, unless they are protected by a substantial buffer of junior instruments.

While we do not rule out the possibility that systemic banks in these countries might receive extraordinary government support, we see the predictability of such support as having materially reduced to the point that we regard it as being "uncertain."

Table 1

DekaBank Deutsche Girozentrale Key Figures

	--Year-ended Dec. 31--				
(Mil. €)	**2015***	**2014**	**2013**	**2012**	**2011**
Adjusted assets	112,418.4	112,970.9	115,983.5	129,641.8	133,625.5
Customer loans (gross)	17,133.9	16,369.7	17,388.7	20,984.5	22,524.0
Adjusted common equity	4,158.4	3,907.3	3,603.9	3,418.1	3,182.2
Operating revenues	907.1	1,786.8	1,604.9	1,546.6	1,479.0
Noninterest expenses	507.0	939.8	1,035.4	935.2	906.9
Core earnings	235.2	577.0	349.4	310.3	318.3

*Data as of June 30.

Business position: Leading domestic asset manager, with ancillary commercial banking activities

Our assessment of DekaBank's "moderate" business position reflects the balance between its sound market position as one of the three leading domestic providers of asset management products, predominantly for clients of the German savings banks, and its below-average market position in commercial banking. We consider that DekaBank's often opportunistic commercial business franchise has become less important to its business profile, but continues to lack the breadth, diversity, and strength of peers'. Moreover, we do not consider the bank's commercial business franchise always to be reasonably linked to its asset-management business, which we consider to be its core franchise.

We expect the German savings banks to retain full ownership of DekaBank. The change in ownership occurred in June 2011 after DekaBank's capital buyback from the Landesbanks, which helped the savings banks to acquire the remaining 50% stake from the Landesbanks. After the change in ownership, DekaBank has renewed its focus on the asset management business and reduced its risk appetite. Based on this updated strategy, we anticipate that expect the bank will continue to focus on a number of enhancements:

- Transforming further into a servicer for the savings banks in all asset management and securities related issues.
- Maintaining positive net new money flows in its mutual funds.
- Increasing volumes in certificates business after having acquired the funds and parts of the capital markets business of Landesbank Berlin, which also was previously owned by the German savings banks.
- Continue its integration with the savings banks via its established liquidity exchange platform.
- Further reducing its so called "Non-Core" Portfolio consisting of investments in various structured finance assets, while keeping the share of its commercial banking exposures broadly stable.

The savings banks are DekaBank's almost exclusive distribution channel for retail mutual funds, and are major depositors at DekaBank. As such, we consider DekaBank's strategy to strengthen its links to the savings banks as instrumental for reducing the inherent confidence sensitivity of its businesses. DekBank's mutual fund business

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suffered from mediocre investment performance over 2010-2013 and resulting loss of market share. Since then, performance of key funds and net new money flows have recovered, which should help stabilize DekaBank's business position.

While DekaBank is not allowed to actively sell mutual funds to retail customers outside the savings bank universe, its institutional funds business is open to all potential clients. However, margins in the institutional funds business are comparatively lower, in our view, and its client base will remain dominated by the savings banks. DekaBank has very limited franchise recognition abroad and funds sales outside Germany are marginal, in our view.

Table 2

DekaBank Deutsche Girozentrale Business Position

		--Year-ended Dec. 31--			
(%)	**2015***	**2014**	**2013**	**2012**	**2011**
Total revenues from business line (mil. €)	907.1	1,786.8	1,604.9	1,546.5	1,479.0
Commercial banking/total revenues from business line	32.4	52.2	42.7	42.8	26.1
Asset management/total revenues from business line	60.9	58.3	59.2	58.3	62.3
Other revenues/total revenues from business line	6.7	(10.5)	(1.9)	(1.1)	11.6
Return on equity	11.1	14.0	8.1	8.2	7.0

*Data as of June 30.

Capital and earnings: RAC ratio expected to mainly benefit from active management of risk assets

Our assessment of DekaBank's capital and earnings as "adequate" reflects our view that our risk-adjusted capital (RAC) ratio before diversification for the bank will increase toward 9.5%-10.0% over the next 12-18 months. This is mainly based on our expectation of a further shrinkage in DekaBank's noncore assets and its further earnings retention into capital. The RAC ratio already increased to 8.9% for the year ended Dec. 31, 2014, from about 8.7% in 2013.

Our RAC ratio for DekaBank is materially lower than the regulatory Tier 1 ratio of 14.1% at year-end 2014. This indicates our more conservative approach to its corporate lending portfolio as well as the higher market and operational risks inherent in DekaBank's asset management business model, which require a substantially higher buffer under our RAC framework.

We expect DekaBank's earnings to become less volatile as a result of a further reduction in its noncore portfolio and no significant increase in its corporate lending. We forecast the bank's three-year average earnings buffer to be about 95 basis points (bps) for the next 12 months. In our view, this indicates an adequate ability for earnings to absorb any unforeseen risk, both in absolute size and compared with industry peers'. Moreover, although we envisage the risk that the savings banks might require higher distribution fees or dividends to be paid-out than in the past, we currently think this is unlikely.

Our calculation of total adjusted capital no longer includes the bank's silent partnerships in the amount of €500 million. Regulatory recognition for this instrument is fading out under Basel III and DekaBank therefore decided to call most of these instruments in the amount of €474 million. To compensate, DekaBank has issued a new instrument in 2014, which qualifies as an Additional Tier 1 instrument under Basel III. We assign "intermediate equity content" to this instrument; it is therefore included in our calculation of total adjusted capital and our RAC ratio for DekaBank.

Table 3

DekaBank Deutsche Girozentrale Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2015***	**2014**	**2013**	**2012**	**2011**
Tier 1 capital ratio	15.5	14.1	15.6	14.0	11.6
S&P RAC ratio before diversification	N.M.	8.9	8.7	7.9	7.4
S&P RAC ratio after diversification	N.M.	9.0	9.0	8.2	7.7
Adjusted common equity/total adjusted capital	89.3	88.7	90.0	87.2	86.4
Net interest income/operating revenues	9.3	13.5	15.8	18.1	14.5
Fee income/operating revenues	62.7	56.4	58.3	61.2	66.0
Market-sensitive income/operating revenues	24.1	28.2	24.9	20.8	16.0
Noninterest expenses/operating revenues	55.9	52.6	64.5	60.5	61.3
Preprovision operating income/average assets	0.7	0.7	0.5	0.5	0.4
Core earnings/average managed assets	0.4	0.5	0.3	0.2	0.2

*Data as of June 30. RAC--Risk-adjusted capital. N.M.--Not meaningful.

Table 4

DekaBank Deutsche Girozentrale Risk-Adjusted Capital Framework Data

(Mil. €)	**Exposure***	**Basel III RWA**	**Average Basel III RW (%)**	**Standard & Poor's RWA**	**Average Standard & Poor's RW (%)**
Credit risk					
Government and central banks	18,533	119	1	873	5
Institutions	31,077	3,197	10	6,062	20
Corporate	19,969	7,958	40	16,155	81
Retail	85	63	74	60	71
Of which mortgage	0	0	0	0	0
Securitization§	1,664	844	51	1,056	63
Other assets	745	667	90	701	94
Total credit risk	72,072	12,848	18	24,907	35
Market risk					
Equity in the banking book†	411	1,149	327	3,042	741
Trading book market risk	--	10,378	--	15,567	--
Total market risk	--	11,527	--	18,610	--
Insurance risk					
Total insurance risk	--	--	--	0	--
Operational risk					
Total operational risk	--	2,006	--	6,114	--
(Mil. €)		**Basel III RWA**		**Standard & Poor's RWA**	**% of Standard & Poor's RWA**
Diversification adjustments	--				
RWA before diversification	--	28,021	--	49,631	100
Total Diversification/Concentration Adjustments	--	--	--	(412)	(1)
RWA after diversification		28,021		49,219	99

Table 4

DekaBank Deutsche Girozentrale Risk-Adjusted Capital Framework Data (cont.)					
(Mil. €)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio	--				
Capital ratio before adjustments	--	3,964	14.1	4,407	8.9
Capital ratio after adjustments‡	--	3,964	14.1	4,407	9.0

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2014, Standard & Poor's.

Risk position: Lower level of diversification and higher potential operational and reputational risks than peers

Our "moderate" risk position assessment for DekaBank reflects the bank's lower-than-peers level of risk diversification. This is due to its wholesale-oriented portfolio mix. In addition, we believe that our RAC ratio could understate certain risks, such as operational and reputational risks intrinsic to DekaBank's asset-management business. Moreover, we consider that DekaBank's still high usage of derivatives indicates a greater complexity of operations compared with domestic banks with a similar blended economic risk. Credit spread risks from its securities holdings could contribute to earnings volatility. This is evident in DekaBank's loss experience, particularly in 2008 when it suffered from losses on loans and markdowns on credit investments.

In general, we regard DekaBank's commercial banking business as riskier than its core asset-management activities. This is mitigated by the sound track record of DekaBank's loan book compared with peers, in our view. On a positive note, the bank reduced its lending exposures over the past years, but we expect the reduction of its lending portfolio has come to an end, as we expect new business to replace maturing exposures. DekaBank's large share of securities investments, amounting to about €46 billion as at June 30, 2015, is mainly driven by liquidity placed by German savings banks, which has been reinvested, and because of its own treasury and capital markets business.

Elevated risks could come from DekaBank's commercial exposures to the transportation and export finance sectors, together at about €4.6 billion of gross exposure (i.e. before collateral) as at June 30, 2015. However, we understand that DekaBank has adequately collateralized and provisioned these risks and has set aside additional reserves to largely buffer remaining risks.

We expect DekaBank to further reduce its riskier noncore activities--such as structured credit investments or securities exposures of lower quality--which accounted for €1.8 billion of exposure as of year-end 2014, down from €5.2 billion as of year-end 2011. DekaBank has already written down large parts of the portfolio to serve as a meaningful cushion against any potential final losses. The noncore asset segment that houses these exposures generates positive returns to DekaBank's profit-and-loss account.

Table 5

DekaBank Deutsche Girozentrale Risk Position					
		--Year-ended Dec. 31--			
(%)	**2015***	**2014**	**2013**	**2012**	**2011**
Growth in customer loans	9.3	(5.9)	(17.1)	(6.8)	(9.7)

Table 5

DekaBank Deutsche Girozentrale Risk Position (cont.)					
Total diversification adjustment / S&P RWA before diversification	N.M.	(0.8)	(2.7)	(3.7)	(3.9)
Total managed assets/adjusted common equity (x)	27.1	29.0	32.2	38.0	42.0
New loan loss provisions/average customer loans	0.3	0	0.1	0.9	0.8
Net charge-offs/average customer loans	N.M.	0.3	2.6	0.7	0.2
Gross nonperforming assets/customer loans + other real estate owned	2.4	4.8	3.9	3.6	3.3
Loan loss reserves/gross nonperforming assets	50.5	22.8	31.3	45.0	40.7

*Data as of June 30. RWA--Risk-weighted assets. N.M.--Not meaningful.

Funding and liquidity: Broadly matched wholesale funding and liquidity access through the savings banks

DekaBank's funding is "average" and its liquidity "adequate," in our view.

Our overall assessment of both funding and liquidity clearly benefits from expected sustainable access to the savings banks and the liquidity DekaBank can raise through sale and repurchase activities, based on its asset-management business.

We expect DekaBank to remain purely wholesale funded, which we consider a relative weakness. Noncore customer deposits, which accounted for about 58% of its funding base as of year-end 2014, are derived from institutional investors, which we consider less sticky compared with more granular retail deposits. More than half of its funding is by money market instruments, and about €15 billion of grandfathered guaranteed debt issued prior to July 2005 will mature by year-end 2015 (see separate section for background on grandfathered debt). However, DekaBank applies a largely matched funding policy to mitigate funding and liquidity risks, which we regard as positive relative to domestic wholesale-oriented banks.

Despite this policy, there has been a dip in our key funding and liquidity metrics for DekaBank as of year-end 2014. We consider this mainly to be an effect of the upcoming maturity of the sizable amount of grandfathered debt. Those maturities are appropriately considered as short-term wholesale funding. However, the counterbalancing short-dated assets are not fully reflected as short-dated liquid assets in those ratios. Therefore, we expect DekaBank's ratios to recover by year-end 2015. As of year-end 2014, its stable funding ratio, calculating available stable funding to stable funding needs, stood at 85% at year-end 2014, and we expect it to maintain a stable funding ratio in a range of 85%-100% over 2015-2016.

DekaBank's ratio of broad liquid assets to short-term wholesale funding stood at 0.93 as of year-end 2014. DekaBank's large securities portfolio, including substantial amounts of liquid assets, in our opinion, bolsters this ratio. We expect DekaBank to keep this liquidity ratio near 1.0x in the medium term, and therefore forecast that its liquidity will remain "adequate."

Table 6

DekaBank Deutsche Girozentrale Funding And Liquidity					
		--Year-ended Dec. 31--			
(%)	**2015***	**2014**	**2013**	**2012**	**2011**
Core deposits/funding base	28.5	24.5	20.5	22.2	24.4

Table 6

DekaBank Deutsche Girozentrale Funding And Liquidity (cont.)					
Customer loans (net)/customer deposits	62.8	71.2	87.2	91.6	92.9
Long term funding ratio	40.3	36.8	44.0	46.0	54.8
Stable funding ratio	91.9	84.8	90.5	92.0	100.5
Short-term wholesale funding/funding base	62.6	66.2	58.4	56.1	46.9
Broad liquid assets/short-term wholesale funding (x)	1.0	0.9	1.0	1.0	1.2
Net broad liquid assets/short-term customer deposits	(4.8)	(17.7)	(8.5)	11.0	60.9
Short-term wholesale funding/total wholesale funding	86.9	87.1	73.0	71.7	61.6
Narrow liquid assets/3-month wholesale funding (x)	1.4	1.3	0.9	1.0	1.2

Note: Ratios for 2015 are not fully comparable to year-end figures given less detailed disclosure in DekaBank's interim accounts. *Data as of June 30.

Support: Three notches of uplift for potential group support

The long-term counterparty credit rating is three notches higher than the SACP, reflecting our view of DekaBank as a "highly strategic" subsidiary of its sole owner, the German savings banks, via their central association Deutscher Sparkassen- und Giroverband. In our view, the savings banks are unlikely to surrender control of DekaBank given the track record of increased strategic alignment since the complete takeover in 2011. Also, the savings banks and DekaBank largely rely on each other in the production and distribution of retail mutual fund products. We understand that expanding investment advisory activities are integral to the savings banks' strategy in light of shrinking net interest margins due to the low interest rate environment and competition. DekaBank has expanded the size and scope of its field support staff, which consults the savings banks on investment advisory products, by about 6x to about 220 covering about 415 savings banks. By providing more comprehensive services, in our view, DekaBank has the potential to become more deeply integrated into the savings banks network.

Grandfathered debt ratings

The 'AA-' ratings on several of DekaBank's obligations are supported by the grandfathered statutory guarantees (Gewährträgerhaftung) of eight German Landesbanks, which in turn benefit from the grandfathered Gewährträgerhaftung of the respective states. The savings banks also guarantee DekaBank's grandfathered obligations. As the grandfathering guarantee is, strictly speaking, not explicit about timeliness of payment, we believe that timeliness of payment hinges on the strong ongoing ownership commitment. In our opinion, the grandfathered debt will benefit from an extremely high likelihood of extraordinary government support as we define it, based on our assessment of its "critical" role for and "very strong" link to the respective guarantors. Any positive or negative rating action on the grandfathered debt would most likely be based on the following factors:

- Developments that could lead us to change our assessment of the role or link to the respective states with regard to grandfathered debt;
- Positive or negative rating actions on the guarantors; or
- A lowering of the SACP of DekaBank.

Additional rating factors: None

No additional factors affect this rating.

Related Criteria And Research

Related Criteria

- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Group Rating Methodology, Nov. 19, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Commercial Paper I: Banks, March 23, 2004

Related Research

- German DekaBank Outlook Revised To Positive On Likely Further Integration With German Savings Banks; Affirmed At 'A/A-1', Aug. 14, 2015
- Banking Industry Country Risk Assessment: Germany, July 23, 2015
- GRE Criteria Review Of Six German And Austrian Banks' Grandfathered Debt Results In Four Downgrades And Two Affirmations, Sept. 20, 2012

Ratings Detail (As Of September 9, 2015)	
DekaBank Deutsche Girozentrale	
Counterparty Credit Rating	A/Positive/A-1
Senior Secured	AAA
Senior Secured	AAA/Stable
Senior Unsecured	A
Senior Unsecured	AA-
Short-Term Debt	A-1
Subordinated	A-
Subordinated	AA-
Counterparty Credit Ratings History	
14-Aug-2015	A/Positive/A-1
08-Dec-2011	A/Stable/A-1
12-Apr-2011	A/Negative/A-1
Sovereign Rating	
Germany (Federal Republic of)	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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