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DekaBank Deutsche Girozentrale

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DekaBank Deutsche Girozentrale

SACP	bbb	+	Support	+3	+	Additional Factors	0

Anchor	a-	
Business Position	Moderate	-1
Capital and Earnings	Adequate	0
Risk Position	Moderate	-1
Funding	Average	0
Liquidity	Adequate	

GRE Support	0
Group Support	+3
Sovereign Support	0

Issuer Credit Rating
A/Stable/A-1

Major Rating Factors

Strengths:	Weaknesses:
• One of the leading domestic asset managers, benefitting from integration into the German savings bank sector. • Expected extraordinary group support from the German savings banks association if needed. • Adequate capital and liquidity positions compared with other German commercial banks.	• Substandard performance in mutual funds segments compared with other domestic asset managers. • Earnings volatility due to fairly concentrated commercial business and credit spread risks. • Reliance on wholesale funding in difficult market conditions.

Outlook

Standard & Poor's Ratings Services' outlook on Germany-based DekaBank Deutsche Girozentrale (DekaBank) is stable. We do not expect any substantial changes in DekaBank's stand-alone credit profile (SACP) or its strategic importance for the German savings banking sector over a 24-month horizon.

We expect that DekaBank will maintain adequate capitalization for its diverse business risk as an asset manager, thanks to limited lending growth and increased earnings retention. We anticipate that DekaBank will continue to prudently manage its funding and liquidity risk.

We could consider lowering the ratings if DekaBank were to increase its business risk (mainly in its commercial lending business), encounter large impairment losses, or make materially higher dividend payments than we currently anticipate--particularly if this were to dilute DekaBank's risk-adjusted capital (RAC) ratio below 7%. In addition, if the bank expanded in countries we view as having higher economic risks than Germany, and if economic risks in Germany heightened, this could lead us to lower the ratings on the bank.

We consider a positive rating action less likely over the coming 24 months, since this would require substantial strengthening of DekaBank's integration into the nationwide German savings banks, or major improvements in its capital, business, or risk profiles.

Rationale

We base our ratings on DekaBank on our view that it will maintain its sound position as one of largest asset managers in Germany. This stable presence is the main pillar of the bank's future strategy, in our opinion. The bank's decreasing share of noncore operations backs up our view that DekaBank is committed to turning around its past substandard performance.

We expect DekaBank's business position to remain "moderate" in the foreseeable future, given that its sound market position in asset management products is outweighed by its below-average market position in commercial banking. In addition, in our view, its commercial banking activities are not always linked to its core asset-management business.

In our view, the bank will maintain "adequate" capitalization against its diverse business risk as an asset manager, reflecting limited growth and increased earnings retention as capital.

DekaBank's risk position is "moderate," in our view, based on its concentration in commercial segments with higher risk, like shipping, as well as its noncore portfolio which comprises structured products and discontinuing commercial business segments, as well as related credit spread risks.

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

We combine the above-mentioned factors to determine DekaBank's stand-alone credit profile (SACP), which we assess at 'bbb'.

We factor a three-notch uplift from the SACP into the long-term rating to reflect our belief that DekaBank's owners, the German savings banks, would provide extraordinary support in the future to DekaBank, should the need arise.

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.

Our industry risk assessment takes into account 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 45% 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.

Table 1

DekaBank Deutsche Girozentrale Key Figures

		--Year-ended Dec. 31--			
(Mil. €)	**2014***	**2013**	**2012**	**2011**	**2010**
Adjusted assets	120,620.3	115,983.5	129,641.8	133,625.5	130,203.3
Customer loans (gross)	15,218.1	17,388.7	20,984.5	22,524.0	24,931.1
Adjusted common equity	3,705.3	3,603.9	3,418.1	3,182.2	3,993.1
Operating revenues	895.1	1,604.9	1,546.6	1,479.0	1,714.4
Noninterest expenses	447.8	1,035.4	935.2	906.9	889.0
Core earnings	269.4	349.4	310.3	318.3	675.0

*Data as of June 30.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

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 continues to lack the breadth, diversity, and strength of peers' and to display a comparably higher revenue volatility. Moreover, we do not consider it 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, in line with our expectations.

At the beginning of 2014, DekaBank acquired the funds and parts of the capital markets business of Landesbank Berlin (LBB), which previously was also owned by the German savings banks. This acquisition, adding around €10 billion of assets under management, has a very limited impact on our assessment of DekaBank's business position, but we expect it to strengthen its expertise in the certificates business and to slightly improve the diversity of its product offering.

The savings banks are DekaBank's almost exclusive distribution channel for retail mutual funds. As such, we consider DekaBank's strengthened link to the savings banks as instrumental for the stability of its asset management business after a phase of mediocre performance over 2010-2013, at least in its mutual funds segment. In addition, we envisage that this strengthened link will further reduce the inherent confidence sensitivity of DekaBank's commercial banking business. Furthermore, the close cooperation enables DekaBank to increasingly exchange liquidity with the savings banks, in our view.

Fee income from DekaBank's asset-management business has been relatively stable over the past decade, despite significant financial market turbulence and substantial declines, especially in its mutual funds business, which has contracted by about 8% since year-end 2010. We forecast asset-management fees to show only limited volatility in 2014, and expect them to slightly increase in the coming years.

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--			
(%)	**2014***	**2013**	**2012**	**2011**	**2010**
Total revenues from business line (mil. €)	895.1	1,604.9	1,546.5	1,479.0	1,714.4
Commercial banking/total revenues from business line	30.5	42.7	42.8	26.1	27.3
Asset management/total revenues from business line	56.6	59.2	58.3	62.3	58.7
Other revenues/total revenues from business line	12.9	(1.9)	(1.1)	11.6	14.0
Return on equity	14.0	8.1	8.2	7.0	17.0

*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 its RAC ratio before diversification will remain in the range of 8.5%-9.5% over the next 12-18 months.

This is mainly based on our expectation of a further shrinkage in DekaBank's noncore assets, leading to a slight decline in risk-weighted assets and its increased ability to retain earnings. The RAC ratio already increased to 8.7% for the year ended Dec. 31, 2013, from about 7.9% in 2012.

Our RAC ratio for DekaBank is significantly lower than the regulatory Tier 1 ratio of 15.6% at year-end 2013. This reflects our more conservative approach to the sizable corporate lending portfolio as well as 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 management to remain clearly committed to further increasing its capital buffers as the regulatory recognition of its €500 million silent partnership started fading out at year-end 2013. This also weighs on our total adjusted capital as we include only the maximum of the silent partnership that is recognized for regulatory purposes, which is 400 million as of year-end 2014. Moreover, we envisage the risk that the savings banks might require higher distribution fees or dividends to be paid-out than in the past, although we currently think this is unlikely.

We expect DekaBank's earnings to become less volatile as a result of a further reduction in its non-core portfolio over time and no significant increase in its corporate lending. However, we forecast the bank's three-year average earnings buffer to be in the range of 70-75 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'.

Table 3

DekaBank Deutsche Girozentrale Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2014***	**2013**	**2012**	**2011**	**2010**
Tier 1 capital ratio	13.8	15.6	14.0	11.6	12.9
S&P RAC ratio before diversification	N.M.	8.7	7.9	7.4	9.8
S&P RAC ratio after diversification	N.M.	9.0	8.2	7.7	10.1
Adjusted common equity/total adjusted capital	90.3	90.0	87.2	86.4	88.9
Net interest income/operating revenues	14.5	15.8	18.1	14.5	18.5
Fee income/operating revenues	53.1	58.3	61.2	66.0	61.9
Market-sensitive income/operating revenues	32.9	24.9	20.8	16.0	17.2
Noninterest expenses/operating revenues	50.0	64.5	60.5	61.3	51.9
Preprovision operating income/average assets	0.8	0.5	0.5	0.4	0.6
Core earnings/average managed assets	0.5	0.3	0.2	0.2	0.5

*Data as of June 30.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 4

DekaBank Deutsche Girozentrale Risk-Adjusted Capital Framework Data

(Mil. €)	**Exposure***	**Basel II RWA**	**Average Basel II RW (%)**	**Standard & Poor's RWA**	**Average Standard & Poor's RW (%)**
Credit risk					
Government and central banks	11,533	228	2	419	4
Institutions	30,675	2,736	9	6,134	20
Corporate	22,991	8,992	39	19,518	85
Retail	76	57	75	46	61
Of which mortgage	0	0	0	0	0
Securitization§	1,866	842	45	1,427	76
Other assets	147	141	96	133	91
Total credit risk	67,288	12,996	19	27,677	41
Market risk					
Equity in the banking book†	360	854	286	2,843	790

Table 4

DekaBank Deutsche Girozentrale Risk-Adjusted Capital Framework Data (cont.)					
Trading book market risk	--	6,813	--	10,219	--
Total market risk	--	7,667	--	13,062	--
Insurance risk					
Total insurance risk	--	--	--	0	--
Operational risk					
Total operational risk	--	1,800	--	5,178	--
(Mil. €)		**Basel II RWA**		**Standard & Poor's RWA**	**% of Standard & Poor's RWA**
Diversification adjustments					
RWA before diversification		22,462		45,917	100
Total adjustments to RWA		--		(1,244)	(3)
RWA after diversification		22,462		44,673	97
(Mil. €)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		3,495	15.6	4,004	8.7
Capital ratio after adjustments‡		3,495	15.6	4,004	9.0

*Exposure at default. §Securitisation exposure includes the securitisation 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, 2013, Standard & Poor's.

Risk position: Lower level of diversification in DekaBank's commercial business

Our risk position assessment for DekaBank is "moderate," reflecting the bank's lower level of risk diversification than peers, due to its wholesale-oriented portfolio mix and the limited reach of its client franchise. In general, we regard DekaBank's commercial banking business as riskier than its core asset-management activities. This is mitigated by the good 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 to come to an end in the coming two years as we expect new business to replace maturing exposures. DekaBank's large share of securities investments, amounting to about 49 billion as of June 2014, is partly driven by liquidity placed by German savings banks, which has been reinvested, and partly 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 around €4.1 billion as of midyear 2014. However, we understand that DekaBank has adequately collateralized and provisioned these risks and has set aside additional reserves until mid-year 2014 to largely buffer remaining risks.

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, credit spread risks from its securities holdings could weigh on the group's profitability. This view is evidenced by DekaBank's loss experience, particularly in 2008 when it suffered from losses on loans and markdowns on credit investments. Nevertheless, DekaBank did not need extraordinary support during the recent downturn since 2008.

We expect DekaBank to further reduce its riskier noncore activities--such as structured credit investments or securities exposures of lower quality--which accounted for about €3.0 billion as of year-end 2013, already 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.

Moreover, we consider that DekaBank's high leverage, still high usage of derivatives, and reliance on mathematical models for its risk management indicates a greater complexity of operations compared with domestic banks with a similar blended economic risk.

Table 5

DekaBank Deutsche Girozentrale Risk Position

		--Year-ended Dec. 31--			
(%)	**2014***	**2013**	**2012**	**2011**	**2010**
Growth in customer loans	(25.0)	(17.1)	(6.8)	(9.7)	(3.5)
Total diversification adjustment / S&P RWA before diversification	N.M.	(2.7)	(3.7)	(3.9)	(3.5)
Total managed assets/adjusted common equity (x)	32.6	32.2	38.0	42.0	32.6
New loan loss provisions/average customer loans	0.1	0.1	0.9	0.8	(0.2)
Net charge-offs/average customer loans	0.1	2.6	0.7	0.2	0.1
Gross nonperforming assets/customer loans + other real estate owned	4.0	3.9	3.6	3.3	3.0
Loan loss reserves/gross nonperforming assets	32.6	31.3	45.0	40.7	27.2

*Data as of June 30.

N.A.--Not available. N/A--Not applicable. 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 position is "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 40% of its funding base as of year-end 2013, are derived from institutional investors, which we consider less sticky compared with more granular retail deposits. 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. This is reflected by our stable funding ratio, calculating available stable funding to stable funding needs, of 91% at year-end 2013. We expect DekaBank to maintain a stable funding ratio in a range of 90%-100% over 2014-2016, facilitated by ongoing funding access to its owner banks, leading to our assessment of funding as average.

DekaBank's broad liquid assets to short-term wholesale funding ratio of 0.98 as of year-end 2013 underpins our view of its adequate liquidity position. DekaBank's large securities portfolio, including substantial amounts of liquid assets, in our view, bolsters this ratio. We expect DekaBank to keep this liquidity ratio at around 1.00x in the medium term, and therefore forecast that its liquidity will remain adequate. DekaBank did not require extraordinary liquidity support during the recent downturn since 2008.

Table 6

DekaBank Deutsche Girozentrale Funding And Liquidity					
		--Year-ended Dec. 31--			
(%)	2014*	2013	2012	2011	2010
Core deposits/funding base	24.2	20.5	22.2	24.4	22.0
Customer loans (net)/customer deposits	61.6	87.2	91.6	92.9	119.6
Long term funding ratio	45.7	44.0	46.0	54.8	53.9
Stable funding ratio	N/A	90.5	92.0	100.5	92.0
Short-term wholesale funding/funding base	56.5	58.4	56.1	46.9	48.3
Broad liquid assets/short-term wholesale funding (x)	N/A	1.0	1.0	1.2	1.1
Net broad liquid assets/short-term customer deposits	N/A	(8.5)	11.0	60.9	41.1
Short-term wholesale funding/total wholesale funding	74.2	73.0	71.7	61.6	61.4
Narrow liquid assets/3-month wholesale funding (x)	N/A	0.9	1.0	1.2	1.0

*Data as of June 30.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

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 "strategically important" subsidiary of its sole owner, the German savings banks, via their central association Deutscher Sparkasen- und Giroverband (DSGV). DekaBank is a member of the savings banks' protection scheme, but the track record of support from the savings banks is limited, although this was based on partial ownership in the past. Nevertheless, we expect a long-term commitment of support from DSGV, based on the 100% ownership and strategy to further align DekaBank's asset-management business to the needs of the German savings banks.

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 view, 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

- Group Rating Methodology, May 7, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	**a-**	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of October 15, 2014)	
DekaBank Deutsche Girozentrale	
Counterparty Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	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	
08-Dec-2011	A/Stable/A-1
12-Apr-2011	A/Negative/A-1
19-Jul-2005	A/Stable/A-1

Ratings Detail (As Of October 15, 2014) (cont.)	
Sovereign Rating	
Germany (Federal Republic of) (Unsolicited Ratings)	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.

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