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DekaBank Deutsche Girozentrale

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DekaBank Deutsche Girozentrale

SACP	bbb		+	Support	+4	+	Additional Factors	0

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

ALAC Support	0
GRE Support	0
Group Support	+4
Sovereign Support	0

Issuer Credit Rating
A+/Stable/A-1

Major Rating Factors

Strengths:	Weaknesses:
• Expected extraordinary group support from its owners, the German savings banks, if needed. • Position as one of the leading domestic asset managers, benefiting from its integration into the German savings bank sector. • Adequate capital levels and liquidity compared with other German commercial banks.	• Potential earnings volatility due to revenues' sensitivity to capital market conditions. • Lower level of risk diversification and higher operational and reputational risks than peers. • Reliance on wholesale funding.

Outlook: Stable

The stable outlook reflects our assumption that a material shift in DekaBank's strategy following its integration with the German savings banks is unlikely over the next 12-24 months. We also base the outlook on our assumption that a material change in Germany's banking economic risk over this time horizon is very unlikely, and on our view that the network of German savings banks will continue to adapt to ensure that it retains a strong franchise and remains profitable.

We could lower our ratings on DekaBank if the German savings banks' profitability were to erode materially in light of the low interest rate environment, such that it prevented the group from covering its normalized credit losses, or if payouts to the savings banks' public-sector backers were to increase substantially and weaken the group's aggregate capitalization. We could also take a negative rating action if the German savings banks unexpectedly decreased the sales volumes of DekaBank's products over a prolonged period.

We consider an upgrade to be a remote possibility at this time. It would require the German banks to demonstrate enhanced profitability and franchise breadth or sustainably very strong capitalization. The former could materialize if fee-based businesses showed stronger earnings contributions, or if the sector's central banks and product providers gave a more unified offering.

We do not assign outlooks to bank issue ratings. That said, we expect our ratings on DekaBank's senior subordinated (senior nonpreferred) issuances will move in tandem with our issuer credit rating on the bank. For details on ratings on such hybrid debt, see the hybrid issue ratings section below.

Rationale

The ratings on DekaBank benefit from four notches of uplift from its 'bbb' stand-alone credit profile (SACP). We base this on the bank's core group status to its 100% owners, the German savings banks. We consider it highly unlikely that DekaBank would require extraordinary support from the German savings banks, as reflected in its SACP. Nevertheless, if it were required, we believe that Deutscher Sparkassen- und Giroverband (DSGV; the German Savings Banks Association), which holds the 100% stake in DekaBank on behalf of the savings banks, would serve as the principle source of support for DekaBank.

The group status is underpinned by DekaBank's high strategic alignment and integration with the interests of the savings banks, as well as DekaBank's and the German savings banks' reliance on each other in the production and distribution of retail mutual funds. In light of pressure on interest income, the generation of commission income (for example, from securities and mutual funds) is becoming more important for savings banks to stabilize their earnings. Furthermore, DekaBank's strategy is to holistically support savings banks' securities investments and advisory production chains in the context of increasing regulatory and customer requirements.

The 'bbb' SACP reflects our assumption that DekaBank will maintain its sound position as one of the largest asset managers in Germany, as well as our projections that it will maintain adequate capitalization and continue to prudently manage its funding and liquidity risk. This is partly offset by the bank's limited presence in asset management outside Germany, as well as its below-average market position in commercial banking activities. Another mitigating factor is

DekaBank's concentration in commercial segments with generally higher risk, such as shipping. Furthermore, its capital ratios could underestimate its exposure to reputational and operational risks from asset management and its trading activities.

Anchor: 'a-', reflecting operations focused on 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'. We assign the economic risk score for Germany when determining the anchor on DekaBank, although the bank's regulatory exposures at default are spread across various countries. We consider DekaBank to be primarily an asset manager, unlike other commercial banks. Consequently, lending activities are minor while counterparty exposures are frequently linked to the bank's asset management activities and its role as one of the liquidity clearing banks for German savings banks. Therefore, we measure DekaBank's underlying exposure by considering that it is headquartered in Germany, its asset management activities are focused on the domestic market, and its key distribution channel and clientele are the domestically focused German savings banks.

Germany has a highly diversified and competitive economy, and we continue to expect that its robust, export-led economy will remain vigorous amid a broader European recovery over our forecast horizon through to 2020. We believe that the impact of Brexit will be manageable and have only a limited negative effect on the German economy. We think a nationwide credit-driven housing bubble is unlikely, in light of limited credit growth and historically favorable affordability ratios, which suggest that house prices will remain undervalued until the end of 2020. We forecast that house price inflation will soften to below 2% in 2019 and 2020, on a par with expected GDP growth, compared with our estimate of about 4.6% for 2017-2018. This is due to recent years of favorable economic conditions, strong national and international demand, tight housing supply in economic centers, a buoyant labor market, high net immigration, and low interest rates.

We continue to regard industry risk for German banks as intermediate, in line with that for peers in many other European countries. The industry benefits from Germany's extensive funding market, banks' domestic funding surpluses, and a material strengthening of banking regulation and supervision, owing to the ongoing EU-wide regulatory harmonization and convergence under Basel III. Returns in the German banking industry have compared well with those of many European banking industries in recent years, thanks to a continued track record of low credit losses. Although we believe the low interest rate environment and intense competition act as a drag on profitability, this is partly mitigated by the German banking industry's progress in implementing measures to improve cost efficiency and fee generation.

We regard the likelihood of the German government providing extraordinary support to systemic domestic banks as uncertain, as we do for most other European banks. This is because, following the full implementation of the EU's enhanced bank resolution framework in 2015, governments cannot directly provide bailouts to distressed banks.

Table 1

DekaBank Deutsche Girozentrale Key Figures

		--Year-ended Dec. 31--			
(Mil. €)	**2018***	**2017**	**2016**	**2015**	**2014**
Adjusted assets	99,350.3	93,545.6	85,756.6	107,789.6	112,970.9
Customer loans (gross)	19,747.6	18,072.1	18,048.3	16,761.4	16,369.7
Adjusted common equity	4,497.8	4,475.6	4,330.1	4,229.9	3,907.3
Operating revenues	684.8	1,540.7	1,653.9	1,580.6	1,786.8
Noninterest expenses	528.0	1,082.2	1,014.6	961.3	939.8
Core earnings	98.9	273.2	280.2	343.1	577.0

*Data as of June 30.

Business position: A 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 largest providers of asset management products in Germany, an earnings mix that is appropriately diversified but still sensitive to capital market conditions, and its below-average market position in commercial banking. Its business model benefits from, but also relies on, the continued strong integration between its asset management and banking operations.

DekaBank is one of the four leading providers of asset management products in Germany, with total assets under management, advice, or administration of €287.9 billion on June 30, 2018. Retail investment products, which are mainly mutual funds, account for just below 50% of assets (domestic market share 15.1% by assets under management). The other 50% are institutional investment products, which are mainly specialized funds (6.6% market share). Accordingly, net commission income represents the bulk--more than three-quarters--of its operating revenues. It caters predominantly to its owners--the German savings banks--and their clients. German savings banks are the exclusive third-party distributors of DekaBank's mutual fund products and conversely we understand that the vast majority of all retail mutual funds distributed by the German savings banks are DekaBank products. The German savings banks sector collectively is the largest German retail banking group, since it has a network of about 13,305 branches (including self-service centers) and had total assets of €1.2 trillion at year-end 2017. In 2017, net distribution of DekaBank products to retail clients, mainly by savings banks, reached a record high €12.3 billion, and net new money generated by institutional clients including the savings banks' own investments was €13.4 billion. Distribution has remained steady in the first six months of 2018--albeit somewhat slower than in 2017--with €6.6 billion to retail and €3.9 billion to institutional customers.

Access to the German savings banks provides DekaBank with a large and stable distribution platform. However, it also restricts its access to other third parties because DekaBank is not allowed to actively sell mutual funds to retail customers outside the savings bank universe. Moreover, compared with other asset managers, DekaBank has very limited franchise recognition abroad. Furthermore, the savings banks' sales of DekaBank products appear to have room for improvement, which is partly a reflection of the savings banks' client base. The performance of key DekaBank funds--equity funds in particular--has recovered from somewhat weaker performance over 2010-2013. This has helped stabilize DekaBank's business position, in our view. DekaBank's product suite is largely focused on actively managed funds--which generally tend to be subject to heightened cost-reward scrutiny--real estate funds, and certificates. It has a marginal position in the still-small but faster-growing market for exchange-traded funds.

One area where DekaBank has seen very strong growth rates, albeit from a low level, is sustainable investment products, particularly for investors that invest according to environmental, social, and governance standards. For retail customers, assets under management in this segment have grown by 30% in 2017 and overall assets in sustainable products amount to almost €11 billion including DekaBank's own investments.

Apart from fee income on asset management products, the largest profit contribution is from DekaBank's trading operations, mainly in money market and securities lending products, derivatives, and securities commission trading. We generally consider trading revenues to be less stable and more exposed to market confidence. However, at DekaBank, they also include earnings on the bank's certificates business, which are essentially market-linked asset management products issued by DekaBank to clients and are therefore on the bank's balance sheet. German savings banks are the main trading partners. Stand-alone lending activities amounted to almost €22 billion at year-end 2017. More than half of that, €13 billion, comprised opportunistic exposures in infrastructure, transportation, and export finance, with the remainder related to commercial real estate loans (about €8.6 billion).

Since 2011, when the German savings banks fully took over DekaBank, it has renewed its focus on the asset management business and reduced its risk appetite. Based on this updated strategy and savings banks ownership, we anticipate that the bank will continue to focus on transforming further into a servicer for the savings banks in all asset management and securities related issues, and continue its integration with the savings banks via its established liquidity exchange platform. We also anticipate that the share of its commercial banking exposures will remain minor and long-term growth will be linked mainly to its asset management activities. These strategic priorities should provide stability to DekaBank's market position, although revenues will likely remain sensitive to capital market conditions.

Table 2

DekaBank Deutsche Girozentrale Business Position

		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Total revenues from business line (mil. €)	725.8	1,545.4	1,653.9	1,588.4	1,786.8
Commercial banking/total revenues from business line	32.5	34.8	27.1	29.2	30.9
Asset management/total revenues from business line	73.8	75.1	69.8	67.7	57.7
Other revenues/total revenues from business line	(6.3)	(9.9)	3.0	3.1	11.3
Return on average common equity	5.1	5.5	5.8	7.7	14.0

*Data as of June 30.

Table 3

DekaBank Deutsche Girozentrale Divisional Economic Pretax Profit Composition

(Mil. €)

Business division name	**Main activities**	**2017**	**2016**
Securities	Actively managed securities, mutual funds, specialty funds	345.4	278.6
Real Estate	Open-ended mutual or closed property funds	111.0	69.4
Asset Management Services	Provision of banking services for asset management	(4.8)	75.4
Capital Markets	Money market, foreign exchange, certificates, derivatives, commission trading	195.6	196.6

Table 3

DekaBank Deutsche Girozentrale Divisional Economic Pretax Profit Composition (cont.)

(Mil. €)

Business division name	Main activities	2017	2016
Financing	Corporate finance, transportation, export, commercial property finance	50.5	(120.7)
Noncore	Legacy corporate finance, leveraged loans, securitizations	11.2	18.2
Other	Other/consolidation	(260.0)	(102.3)
Economic Pretax Profit	N/A	448.9	415.1

N/A--Not applicable.

Capital and earnings: Capital ratios benefit from amendments to DekaBank's market risk models, but will be partly offset by expected loan growth

Our assessment of DekaBank's capital and earnings reflects our view that the bank's risk-adjusted capital (RAC) ratio before diversification will trend toward 9.5%-10.0% through to the end of our forecast horizon. This is near our threshold for a higher capital and earnings score. However, we would need to be convinced that the ratio could stay sustainably above 10% before assigning a higher score. We are also wary of the volatility in DekaBank's earnings, some uncertainty regarding the growth rate in risk-weighted assets, and certain tax-related legal risks stemming from DekaBank's historic securities lending activities.

The RAC ratio was 11.5% at year-end 2017 based on our Risk-Adjusted Capital Framework Methodology, published July 20, 2017. This is a further improvement from 2016. To a large extent, lower credit valuation adjustment exposures account for the improvement of the RAC ratio given the higher share of financial institution counterparties compared with the calculation for the previous year. Moreover, operational risks have reduced because we account for a larger share of revenues coming from asset management activities.

We project accelerated loan growth in areas such as commercial real estate and asset finance will lead to a decline of DekaBank's RAC ratio, since risk exposure growth is likely to outpace earnings retention. Such loan growth is an element of DekaBank's strategy to rebuild its loans and securities portfolios and strengthen net interest income after high investment redemptions in prior years. Also underlying our projection is our assumption of an economic pretax profit (economic result) of €400 million-€500 million annually in 2018 and 2019. The economic result is DekaBank's management's earnings metric, which is broadly equivalent to total comprehensive income under International Financial Reporting Standards. That said, this is on a pretax basis, with a few add-ons and forward-looking management adjustments. It is appropriate to consider this metric in addition to reported net income, given that roughly half of DekaBank's total balance sheet assets are held at fair value (including derivatives' credit amounts) and that the bank often does not apply hedge accounting even though economic hedges exist.

Our RAC ratio for DekaBank is materially lower than the regulatory fully-loaded Core Equity Tier 1 (CET1) ratio of 16.7% at year-end 2017. This primarily indicates our more conservative approach to its loan and securities portfolio as well as higher charges for credit valuation adjustment, which require a higher buffer under our RAC framework. Overall, regulatory capitalization is well above the minimum requirement of 4.5% for the CET1 ratio and is positioned to meet current and future minimum requirements. Specifically, the finalization of the Basel III capital reform or updated regulatory treatment of guaranteed fund products might lead to regulatory risk-weighted asset inflation over the medium-to-long term.

Table 4

DekaBank Deutsche Girozentrale Capital And Earnings					
		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Tier 1 capital ratio	19.9	18.8	19.2	14.4	14.1
S&P Global Ratings RAC ratio before diversification	N/A	11.5	10.3	8.8	8.9
S&P Global Ratings RAC ratio after diversification	N/A	10.7	9.5	8.7	9.0
Adjusted common equity/total adjusted capital	90.5	90.4	90.1	89.9	88.7
Net interest income/operating revenues	2.8	3.9	4.4	8.4	13.5
Fee income/operating revenues	82.3	78.0	66.9	70.2	56.4
Market-sensitive income/operating revenues	13.4	14.8	23.3	15.0	28.2
Noninterest expenses/operating revenues	77.1	70.2	61.3	60.8	52.6
Preprovision operating income/average assets	0.3	0.5	0.7	0.6	0.7
Core earnings/average managed assets	0.2	0.3	0.3	0.3	0.5

*Data as of June 30. N/A--Not applicable.

Table 5

DekaBank Deutsche Girozentrale Risk-Adjusted Capital Framework Data					
(Mil. €)	**Exposure***	**Basel III RWA**	**Average Basel III RW (%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk					
Government and central banks	22,879	214	1	620	3
Of which regional governments and local authorities	1,046	0	0	51	5
Institutions and CCPs	27,875	4,083	15	5,142	18
Corporate	23,889	9,514	40	18,522	78
Retail	47	35	75	28	61
Of which mortgage	0	0	0	0	0
Securitization§	208	151	73	162	78
Other assets†	424	263	62	825	194
Total credit risk	75,322	14,260	19	25,299	34
Credit valuation adjustment					
Total credit valuation adjustment	--	950	--	2,160	--
Market risk					
Equity in the banking book	599	1,308	218	4,263	712
Trading book market risk	--	5,127	--	8,682	--
Total market risk	--	6,435	--	12,945	--
Operational risk					
Total operational risk	--	3,242	--	2,763	--

Table 5

DekaBank Deutsche Girozentrale Risk-Adjusted Capital Framework Data (cont.)

(Mil. €)	Basel III RWA		S&P Global Ratings RWA	% of S&P Global Ratings RWA
Diversification adjustments				
RWA before diversification	24,886		43,166	100
Total diversification/concentration adjustments	--		2,937	7
RWA after diversification	24,886		46,103	107
(Mil. €)	**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio				
Capital ratio before adjustments	4,676	18.8	4,949	11.5
Capital ratio after adjustments‡	4,676	18.8	4,949	10.7

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Other assets includes deferred tax assets (DTAs) not deducted from ACE. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). CCP--Central counterparty. RAC--Risk-adjusted capital. RW--Risk weight. RWA--Risk-weighted assets. Sources: Company data as of Dec. 31, 2017, S&P Global Ratings.

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

Our risk position assessment for DekaBank reflects the bank's lower-than-peers' level of risk diversification and focus on wholesale-oriented portfolios with higher single-name concentrations. In addition, we believe that our RAC ratio could understate certain risks, such as operational and reputational risks intrinsic to DekaBank's asset-management and trading businesses, given its strong focus on these activities. Moreover, we consider that DekaBank's still-high use of derivatives indicates a greater operational complexity compared with domestic banks with similar economic risk exposure. Furthermore, credit spread risks from its securities holdings could contribute to earnings volatility.

In general, we regard DekaBank's commercial banking business as riskier than its core asset-management activities. In particular, it is focused on segments that we consider to be potentially cyclical such as commercial real estate and transportation finance (including shipping, with €1.2 billion gross credit volume at Dec. 31, 2017). That said, the favorable economic cycle, some asset disposables, and moderate loan growth have helped the ratio of nonperforming assets to customer loans to decline to 3% on Dec. 31, 2017 from 4.7% the year before. Moreover, the relatively small size of DekaBank's loan book compared with its equity base further mitigates the bank's low nonperforming assets ratio.

Table 6

DekaBank Deutsche Girozentrale Risk Position

		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Growth in customer loans	18.5	0.1	7.7	2.4	(5.9)
Total diversification adjustment/S&P Global Ratings RWA before diversification	N/A	6.8	N/A	0.6	(0.8)
Total managed assets/adjusted common equity (x)	22.1	20.9	19.9	25.5	29.0
New loan loss provisions/average customer loans	(0.2)	0.2	1.1	0.4	0.0
Net charge-offs/average customer loans	0.1	1.1	0.6	0.2	0.3

Table 6

DekaBank Deutsche Girozentrale Risk Position (cont.)					
		--Year-ended Dec. 31--			
(%)	2018*	2017	2016	2015	2014
Gross nonperforming assets/customer loans + other real estate owned	1.6	3.0	4.7	4.4	4.8
Loan loss reserves/gross nonperforming assets	31.8	26.4	39.1	30.2	22.8

*Data as of June 30. N/A--Not available. RWA--Risk-weighted assets.

Funding and liquidity: Broadly matched funding and liquidity access through the savings banks mitigates the high share of short-term wholesale funding

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 its asset-management business. It also benefits from a sizable portfolio of broad liquid assets representing about 50% of the bank's balance sheet. These factors mitigate the bank's strong reliance on short-term wholesale funding, which is a weakness compared with the average funding profile of banks in Germany.

Given its lack of retail deposit franchise, DekaBank is likely to remain purely wholesale funded. In particular, short-term wholesale funding accounted for 59% of the funding base on Dec. 31, 2017. This is significantly higher than other German banks. However, DekaBank largely applies a matched funding policy and maintains a large pool of liquid assets. We therefore consider that its funding profile is appropriate for its assets. This is further underpinned by its stable funding ratio (SFR) of 91% on Dec. 31, 2017, and a broad liquid assets-to-wholesale funding ratio (BLAST) of 0.96x on the same date. DekaBank's regulatory liquidity coverage ratio (group level) increased further to 153% on Dec. 31, 2017, up from 124% in 2016.

Qualitatively, the institutional nature of DekaBank's customer depositors is not fully reflected in DekaBank's SFR and BLAST ratios. Institutional customer deposits are less granular and more confidence-sensitive than retail deposits and are therefore exposed to higher outflow risk than assumed in our ratios. This is mitigated by our understanding that Dekabank sources about €20 billion of its money market funding from either investment funds--partly those managed by DekaBank, which need to hold minimum amounts of statutory liquidity--or from the German savings bank sector, which should exhibit stronger permanence than other bank deposits.

Table 7

DekaBank Deutsche Girozentrale Funding And Liquidity					
		--Year-ended Dec. 31--			
(%)	2018*	2017	2016	2015	2014
Core deposits/funding base	32.0	28.4	29.5	27.3	24.5
Customer loans (net)/customer deposits	69.9	77.7	84.7	67.1	71.2
Long term funding ratio	46.1	44.3	49.7	41.0	36.8
Stable funding ratio	96.6	90.9	97.1	89.9	80.8
Short-term wholesale funding/funding base	57.0	59.2	53.7	62.1	66.2
Broad liquid assets/short-term wholesale funding (x)	1.0	1.0	1.0	1.0	0.9
Net broad liquid assets/short-term customer deposits	0.1	(9.1)	6.7	(7.8)	(26.2)
Short-term wholesale funding/total wholesale funding	83.2	82.0	75.4	84.9	87.1

Table 7

DekaBank Deutsche Girozentrale Funding And Liquidity (cont.)					
		--Year-ended Dec. 31--			
(%)	2018*	2017	2016	2015	2014
Narrow liquid assets/three-month wholesale funding (x)	1.0	1.0	1.0	1.1	1.3

*Data as of June 30.

Support: Four notches of uplift for potential group support by German savings banks

We consider DekaBank to be a core subsidiary of its sole owner, the network of German savings banks, whose group credit profile (GCP) we assess at 'a+' (see "Credit FAQ: How We Rate German Savings Banks," published Aug. 19, 2016, on RatingsDirect). We believe that the savings banks would support DekaBank under any circumstances through the DSGV. As a result, the long-term issuer credit rating on DekaBank is four notches higher than its SACP.

German savings banks remain well-capitalized overall, partly thanks to only a marginal earnings payout requirement. In addition, they are the leading retail banking group in Germany by market share, benefiting from their extensive branch network, which supports their large and very granular retail deposit base. At the same time, these factors are partly offset by the lower strategic effectiveness of the savings banks compared to other domestic peers, limited fungibility of capital and liquidity in the group, and risks from their equity stakes in associated Landesbanks.

Generally, under group rating methodology, we consider the savings banks to be a group, given the level of strategic cohesiveness, use of a common brand and services, common legal status as public law institutions, and the existence of a mutual protection scheme, which has prevented the failure of individual banks for decades. The German savings banks form a decentralized organization without a formal parent company. However, in our view, strategic coordination and access to group members' cash flows by their central association is sufficiently strong to consider all German savings banks to be group members.

The sector also enjoys the benefits of its joint liability scheme, the goal of which is to safeguard member institutions' liquidity and solvency. Ultimately, if a bank were to fail, the scheme would also serve as a deposit protection scheme, and EU authorities would recognize it as an institutional protection scheme.

We do not add any support uplift to the GCP of the savings banks sector under our "Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity," published April 27, 2015. We believe that regulators would apply a resolution framework to individual institutions of the sector and not to the group as a whole.

The German savings banks hold a 100% stake in DekaBank 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. Furthermore, 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--including sales of mutual funds--are integral to the savings banks' strategy in light of shrinking net interest margins caused by high competition and the low interest rate environment. Moreover, DekaBank's supervisory board comprises representatives of German savings banks and their regional associations, who are ultimately in charge of deciding, on behalf of the German savings banks' institutional protection scheme, whether support should be granted to DekaBank. We therefore believe that the German savings banks are able to detect problems early and organize support, as appropriate, in a timely fashion.

We consider DekaBank's strategy of deeper integration with the savings banks as a positive, pursued since the 2011 takeover by the savings banks. On top of expanding its existing asset management service, DekaBank provides holistic support to savings banks in their investment advisory and securities processing operations. We understand that DekaBank's tools are firmly integrated into the savings banks' central IT system and standard process design. Ultimately, such deeper integration could also benefit DekaBank's SACP.

Hybrid issue ratings

We believe that the savings banks would seek to prevent a regulatory resolution scenario at DekaBank because of its important role for the sector. We therefore use the ICR as the starting point from which we derive the ratings on DekaBank's senior subordinated debt. We deduct one notch for subordination from the ICR, resulting in 'A' ratings on these debt obligations. A resolution scenario--and therefore a potential bail-in of DekaBank's senior subordinated debt instruments--might occur in the unlikely event that it were to reach a point of nonviability, without support from its owners. The German Federal Financial Supervisory Authority, BaFin, has classified DekaBank as an "other systemically important institution".

Additional rating factors: None

No additional factors affect this rating.

Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Senior Nonpreferred Notes In Germany: The Best Of Both Worlds For German Banks, And Clarity For Investors, July 10, 2018
- Banking Industry Country Risk Assessment: Germany, Oct. 11, 2017
- Various German Banks' Snr Unsecured Debt Lowered/Affirmed After Notes Review; Off Watch; Four Banks Remain On Watch, Feb. 9, 2017
- Credit FAQ: How We Rate German Savings Banks, Aug. 19, 2016

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 2, 2018)	
DekaBank Deutsche Girozentrale	
Issuer Credit Rating	A+/Stable/A-1
Commercial Paper	
Local Currency	A-1
Senior Subordinated	A
Senior Unsecured	A+
Short-Term Debt	A-1
Issuer Credit Ratings History	
09-Feb-2017	A+/Stable/A-1
14-Aug-2015	A/Positive/A-1
08-Dec-2011	A/Stable/A-1
Sovereign Rating	
Germany	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' 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.