Research Update:

Germany-Based DekaBank Outlook Revised To Positive On Stronger Group Support Capacity; 'A/A-1' Ratings Affirmed

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Overview

- German savings banks show improved earnings and cost efficiency. Additionally, a strengthened institutional protection scheme limits tail risks from Landesbanks.
- Germany-based DekaBank maintains its strategic relevance to the savings bank sector, and continues to build-up capital.
- Consequently, we revised our outlook on DekaBank to positive from stable and affirmed our 'A/A-1' long-term and short-term issuer credit ratings on the institution. We also revised our stand-alone credit profile on the bank to 'bbb+' from 'bbb'.
- The positive outlook reflects the potential for an improving group credit profile for the German savings banks sector, implying an even stronger capacity to support DekaBank, which we see as core subsidiary.

Rating Action

On Sept. 10, 2024, S&P Global Ratings revised its outlook on DekaBank Deutsche Girozentrale to positive from stable. At the same time, S&P Global Ratings affirmed its 'A/A-1' long- and short-term issuer credit ratings, 'A' senior unsecured debt ratings, and 'A-' senior subordinated debt ratings on the bank.

Rationale

The outlook revision reflects our view of the German savings banks' strengthening group credit profile. This is due to improved earnings from the bank's leading deposit franchise as well as stronger group cohesion and receding risks from Landesbank participations. This is based on a stronger and more streamlined IPS, which increases the likelihood of timely and sufficient support.

We now incorporate a positive comparable rating analysis adjustment in our ratings on Deka. We base the adjustment on peer analysis and capture attributes not fully reflected in our other rating factors. Specifically, we think DekaBank's business position and capital and earnings do not warrant a higher assessment for those individual factors but cumulatively merit a stronger rating outcome.

Deka is a leading domestic asset manager with an asset management volume of €377 billion as of June 30, 2024. It benefits from its access to the German savings banks' distribution network, which is the exclusive third-party distributor of DekaBank's mutual fund products. Fee income is the bank's primary income source, typically representing 70%-80% of operating revenue. We view DekaBank's asset management revenue as more stable than fee revenue from investment banking activities given that the bulk comes from portfolio-related commissions on 7.9 million regular savings plans as of June 2024. We forecast a return on equity of 7%-8% and a cost to income ratio of 60%-65% in the next few years. Moreover, we think the scale of DekaBank's commercial banking loans will not grow materially, and the bank's long-term growth will come mainly from its asset management activities.

Strong internal capital generation supports dividends and improving capitalization. Despite solid projected profitability, we expect moderate payouts of below 50% to continue, contributing to an increase of our risk-adjusted capital ratio (RAC) to about 15% by 2026. However, potential acquisitions could weigh somewhat on capital ratios. In addition, we see potential earnings volatility from DekaBank's trading operations and lending activities, which we view as less stable and more vulnerable than the asset management business. Taken together, this supports our final assessment of a strong capital and earnings profile.

The risk position reflects exposures to cyclical sectors. About 40% of DekaBank's commercial lending focuses on commercial real estate, with the remainder containing some exposures to infrastructure, transportation, and export finance. The high cyclicality of these sectors makes the underlying exposure more vulnerable to economic downturns and explains the periodic spikes in DekaBank's asset quality ratios. Still, the total commercial lending portfolio accounts for only about 25% of total assets, significantly below the 60%-70% European bank average. Therefore, strong asset management profits would likely mitigate more severe credit losses. Positively, we understand Deka has no intention to expand these lending activities as new business offsets maturing loans. In a no-growth scenario, the bank can be more selective in new business, which should support asset quality. We forecast risk costs to normalize to 25-30 basis points and the NPA ratio in its lending business to remain at 3.5%-4.5% over the next couple of years.

Outlook

The positive outlook reflects our expectation that the German savings banks--which own 100% of DekaBank--will show better earnings, improved group cohesion, and lower tail risks from Landesbanks.

The outlook also reflects our assumption that a material shift in DekaBank's strategy and integration with the German savings banks is unlikely.

Upside scenario

We could raise the ratings on DekaBank if German savings banks can translate their strong deposit franchise into higher risk-adjusted profitability, reaching levels comparable with those of large European banking groups.

A positive rating action would also depend on the German savings banks maintaining their strong capital buffers and group cohesion as well as resilient asset quality.

While less likely, an upgrade could also follow if we see the savings banks sustainably improve their capitalization beyond already-strong levels.

Downside scenario

We could revise the outlook on DekaBank to stable if:

- German savings banks cannot narrow the gap with other large European banking groups in terms of risk-adjusted profitability and operating efficiency;
- Developments weaken the sector's overall group cohesion or raise tail risks from the participation in Landesbanks; or
- German savings banks asset quality deteriorates significantly.

We could also take a negative rating action if the savings banks deprioritized selling DekaBank's products over a prolonged period, potentially leading to weakening integration.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	**A/Positive/A-1**	**A/Stable/A-1**
SACP	bbb+	bbb
Anchor	bbb+	bbb+
Business position	Moderate (-1)	Moderate (-1)
Capital and earnings	Strong (+1)	Strong (+1)
Risk position	Moderate (-1)	Moderate (-1)
Funding and liquidity	Adequate and adequate (0)	Adequate and adequate (0)
Comparable ratings analysis	+1	0
Support	+2	+3
ALAC support	0	0
GRE support	0	0
Group support	+2	+3
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- DekaBank Deutsche Girozentrale, Dec. 1, 2023

Ratings List

Ratings Affirmed		
DekaBank Deutsche Girozentrale		
Senior Unsecured	A	
Senior Subordinated	A-	
Commercial Paper	A-1	
Ratings Affirmed; Outlook Action		
	To	**From**
DekaBank Deutsche Girozentrale		
Issuer Credit Rating	A/Positive/A-1	A/Stable/A-1