

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms DekaBank Deutsche Girozentrale's deposit and senior unsecured ratings at Aa1; outlook remains stable

05 Mar 2025

Baseline Credit Assessment affirmed at baa2

Frankfurt am Main, March 05, 2025 -- Moody's Ratings (Moody's) has today affirmed DekaBank Deutsche Girozentrale's (DekaBank) long-term deposit, long-term issuer, and senior unsecured ratings at Aa1; the outlook on these ratings remains stable. At the same time, we affirmed the bank's long-term Counterparty Risk Ratings (CRR) at Aa1, its senior unsecured MTN rating at (P)Aa1, its junior senior unsecured rating at A1, its junior senior unsecured MTN rating at (P)A1, its subordinate ratings at A3, its subordinate MTN rating at (P)A3, and its preferred stock non-cumulative rating at Baa2(hyb). Concurrently, we affirmed the bank's short-term CRR, short-term deposit, short-term issuer, and Commercial Paper ratings at P-1, while we also affirmed its other short term rating at (P)P-1.

In addition, we affirmed DekaBank's Baseline Credit Assessment (BCA) at baa2, its Adjusted BCA at a2, its long-term Counterparty Risk Assessment (CR Assessment) at Aa1(cr), and its short-term CR Assessment at P-1(cr).

RATINGS RATIONALE

-- AFFIRMATION OF THE BCA

The affirmation of DekaBank's baa2 BCA reflects the bank's business model and status as the core securities service provider for Sparkassen-Finanzgruppe (S-Finanzgruppe; Corporate Family Rating Aa2 stable, BCA a2), which results in a high share of fee income and sound profitability. The BCA also takes into account the bank's strong capitalisation, which mitigates asset risks stemming from its loan exposures, including concentrations in commercial real estate, which have been responsible for a meaningful increase in problem loans in 2023 and 2024. Furthermore, the BCA incorporates the bank's high reliance on market funding, which is balanced by its access to an ample funding pool provided through excess deposits

of S-Finanzgruppe's member banks. In addition, the BCA incorporates DekaBank's sound level of liquid resources.

-- AFFIRMATION OF THE ADJUSTED BCA

The affirmation of DekaBank's Adjusted BCA at a2 incorporates the affirmation of the bank's BCA and the 'affiliate-backed' probability of cross-sector support from S-Finanzgruppe in case of need. This results in three notches of rating uplift from affiliate support and an Adjusted BCA that is in line with the BCA of S-Finanzgruppe, reflecting DekaBank's role as the sector's core securities service provider as well as the sector's full ownership of DekaBank.

-- AFFIRMATION OF RATINGS

The affirmation of DekaBank's ratings follows the affirmation of DekaBank's Adjusted BCA and incorporates unchanged results from our Advanced Loss Given Failure (LGF) analysis and unchanged assumptions for government support.

Because of DekaBank's high share of capital market funding and the resulting meaningful volume of bail-in-able debt instruments, our Advanced LGF analysis continues to yield three notches of rating uplift for the CRR, the CR Assessment, deposits, and senior unsecured debt, and one notch of rating uplift for junior senior unsecured liabilities. Because subordinated debts do not benefit from protection beyond equity and face a high loss severity, they are rated one notch below the Adjusted BCA. Furthermore, the bank's Additional Tier 1 instruments (preferred stock non-cumulative rating) are rated three notches below the Adjusted BCA, reflecting their high loss given failure as well as the risk of coupon skips prior to failure.

The unchanged moderate government support assumption for liabilities ranking above junior senior unsecured debt and the resulting one notch of rating uplift reflects the bank's membership in the systemically important S-Finanzgruppe.

OUTLOOK

The stable outlook on DekaBank's long-term deposit, long-term issuer, and senior unsecured ratings reflects the stable outlook of S-Finanzgruppe. The stable outlook further incorporates our expectation of a broadly unchanged liability structure of DekaBank.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of DekaBank's long-term ratings could be triggered by an improvement in the financial strength of S-Finanzgruppe. DekaBank's junior senior unsecured and subordinate ratings could potentially also be upgraded if the bank were to issue substantial additional volumes of capital instruments, such that it reduces the loss severity for these instrument classes.

An upgrade of the BCA could result if DekaBank manages to improve its current financial strength in the challenging operating environment by keeping problem loan formation in check, defending its sound capitalisation, reporting sustainably improved profitability, and maintaining its current combined liquidity profile. However, an upgrade of DekaBank's BCA would not result in an upgrade of its Adjusted BCA or its ratings.

DekaBank's ratings would be downgraded following a downgrade of the Adjusted BCA as a result of a deterioration in the financial strength of S-Finanzgruppe. Furthermore, a shift in the liability structure towards non-bail-in-able instruments, such that it increases the loss severity for a respective debt class and results in reduced rating uplift from our Advanced LGF analysis, could result in a downgrade.

The BCA could be downgraded in case of a further material weakening of DekaBank's asset quality, a concurrent decline in capitalisation and profitability, and a deterioration of the bank's combined liquidity profile.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in November 2024 and available at <https://ratings.moodys.com/rmc-documents/432741>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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