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Research Update:

German DekaBank Upgraded To 'A+' On Continued Alignment With German Savings Banks; Outlook Stable

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Overview

- DekaBank continues to pursue its strategy of integrating more deeply into the securities advisory and processing operations of its 100% owners, the German savings banks.
- We believe that the strengthened mutual dependencies between DekaBank and the German savings banks mean it would be highly improbable that DekaBank would be severed from the savings banks.
- We are raising our long-term counterparty credit rating on DekaBank to 'A+' from 'A' and affirming the 'A-1' short-term counterparty credit rating.
- The stable outlook reflects our expectation of stable financial profiles of the German savings banks.

Rating Action

As previously announced on Feb. 9, 2017, S&P Global Ratings raised its long-term counterparty credit rating (CCR) on DekaBank Deutsche Girozentrale (DekaBank) to 'A+' from 'A', and affirmed the 'A-1' short-term counterparty credit rating. The outlook is stable.

In a related action, we also concluded our review of DekaBank's senior unsecured obligations and resolved the associated CreditWatch placement. For the nine issuances that we continue to assess as senior unsecured, we raised the issue ratings by one notch, in line with our action on the CCR. We reclassified DekaBank's other senior issuances to senior subordinated and affirmed the issue ratings. For more details see "Various German Banks' Snr Unsecured Debt Lowered/Affirmed After Notes Review; Off Watch; Four Banks Remain On Watch", published Feb. 9, 2017.

Rationale

The upgrade is in response to DekaBank's continued strategic stability and track record of integrating its businesses with its 100% owners, the German savings banks, a trend that we had reflected in a positive outlook since 2015. We now consider DekaBank to be a core subsidiary of the group, and so now align our ratings on DekaBank with our 'a+' assessment of the German savings banks' group credit profile.

Since its full takeover by the German savings banks in 2011, DekaBank has increasingly aligned its strategy to the needs of its owners. On top of its role as a central institution and provider of asset management services, DekaBank has invested to provide broader support for the savings banks investment advisory and securities processing operations. These initiatives were fully implemented in 2016. We believe that this strategy has further strengthened the mutual business dependencies between DekaBank and the savings banks, and render it more difficult to sever DekaBank from the group. The integration is also underpinned by a longer-term upward trend of sales commissions generated by the savings banks through the sale of DekaBank products. Given the savings banks' support for the recent contract extension of DekaBank's CEO and deputy CEO by five years, we anticipate that DekaBank's strategic focus is set to continue.

DekaBank's performance will continue to support its place in the group, in our view. In its publication of its third-quarter earnings highlights, the bank announced its expectation that its economic pretax profit ("economic result") would be slightly above €400 million for full-year 2016. This is somewhat below our projection of about €500 million per year that we think is achievable over our forecast period, and below the exceptionally strong €610 million achieved in 2015. However, the main reasons for the deviation are higher risk provisions for its relatively small legacy shipping exposures, as well as expected actuarial losses on its employee pension plan. Therefore, we believe that the development of DekaBank's commission and trading income better reflects its underlying performance. We anticipate that these revenue items will remain at good levels, although lower than in 2015.

We consider it highly unlikely that DekaBank would require extraordinary support from the German savings banks, as reflected in its unchanged 'bbb' stand-alone credit profile. 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.

Senior unsecured issue ratings

Nine of DekaBank's senior unsecured debt obligations remain senior unsecured following our review of their terms and conditions. The upgrade of these issues announced on Feb. 9, 2017, notwithstanding the negative CreditWatch that was in place during the review, reflects that we continue to align our ratings on these notes with the CCR on DekaBank and that we view group integration to have strengthened earlier than previously anticipated.

Outlook

The stable outlook reflects our assumption that a material shift in DekaBank's strategy and integration with the German savings banks is unlikely over the next 12-24 months. The outlook is also based on our assumption of a low likelihood of a very material change in Germany's economic and banking

industry risk over this time horizon, 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. An unexpected and sustained slump in sales volumes of DekaBank products by the German savings banks could also lead to a negative rating action.

We consider an upgrade to be a remote possibility at this time. It would require enhanced profitability and franchise breadth of the German savings banks. These might be achieved by stronger earnings contribution by fee-based businesses or by more unified offering of the sector central banks and product providers.

Ratings Score Snapshot

Counterparty Credit Rating	A+/Stable/A-1	A/Positive/A-1
SACP	bbb	bbb
Anchor	a-	a-
Business Position	Moderate (-1)	Moderate (-1)
Capital and Earnings	Adequate (0)	Adequate (0)
Risk Position	Moderate (-1)	Moderate (-1)
Funding	Average (0)	Average (0)
Liquidity	Adequate	Adequate
Support	(+4)	(+3)
ALAC Support	(0)	(0)
GRE Support	(0)	(0)
Group Support	(+4)	(+3)
Sovereign Support	(0)	(0)
Additional Factors	(0)	(0)

Related Criteria

- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, June 01, 2016
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015

- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 09, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 09, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions, Dec. 06, 2010
- Criteria - Financial Institutions - Banks: Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 04, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General Criteria: Rating Implications Of Exchange Offers And Similar Restructurings, Update, May 12, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Various German Banks' Snr Unsecured Debt Lowered/Affirmed After Notes Review; Off Watch; Four Banks Remain On Watch, Feb. 9, 2017

Ratings List

Upgraded; Ratings Affirmed; CreditWatch Action

	To	From
DekaBank Deutsche Girozentrale		
Counterparty Credit Rating	A+/Stable/A-1	A/Positive/A-1
Commercial Paper	A-1	A-1
Subordinated*	A	A/Watch Neg
Senior Unsecured	A+	A/Watch Neg

*Previously rated as Senior Unsecured.

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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