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Research Update:

German DekaBank Outlook Revised To Positive On Likely Further Integration With German Savings Banks; Affirmed At 'A/A-1'

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Overview

- The strategy of DekaBank, Germany-based provider of asset management and securities services for savings banks, has become increasingly aligned with that of its German savings banks owners since they fully took over in 2011.
- We believe that its strategy provides DekaBank the potential to become increasingly integral to the savings banks' investment advisory processes, and we consequently now consider DekaBank to be highly strategic to the German savings banks.
- We are revising our outlook on DekaBank to positive from stable and affirming our 'A/A-1' ratings on DekaBank.
- The positive outlook reflects that we could revise our assessment of DekaBank's status to the group of German savings banks to core over the next 18-24 months, which would lead to a one-notch upgrade.

Rating Action

On Aug. 14, 2015, Standard & Poor's Ratings Services revised its outlook on Germany-based DekaBank Deutsche Girozentrale (DekaBank), Germany-based provider of asset management and securities services for savings banks, to positive from stable. At the same time, the 'A' long-term and 'A-1' short-term counterparty credit ratings were affirmed.

Rationale

The affirmation reflects the evolution of DekaBank's strategy since the full takeover by the group of German savings banks in 2011. We consider that DekaBank has expanded its investment and advisory product offering to the savings banks while de-emphasizing its unrelated commercial banking activities.

These measures include DekaBank's material expansion of the size and scope of its field support to the savings banks. In light of pressure on the banks' net interest margins and growing regulatory complexities around advisory business, we believe that such comprehensive product offerings, tailored to their investment and advisory processes, could become increasingly integral to the long-term strategy of the German savings banks.

Furthermore, we expect that DekaBank will be in a position to continue stabilizing its market position among mutual fund providers in Germany. This would reflect recent years' improvements in fund performance from below-average levels previously. For its mutual fund distribution, we expect that DekaBank will continue to rely exclusively on the savings banks' network.

We therefore believe that the likelihood of support to DekaBank by the German savings banks, if needed, has increased. We consequently have revised our assessment of DekaBank's group status to "highly strategic" (from "strategic" previously). Given our current assessment of DekaBank's stand-alone credit profile (SACP) at 'bbb' and our assessment of the savings banks' aggregate creditworthiness, the upward revision of the group status does not result in a rating change. We factor three notches into the rating to reflect our expectation of support from the German savings banks group.

We consider DekaBank's SACP to be unchanged at 'bbb', reflecting a "moderate" business position, "adequate" capital and earnings, "moderate" risk position, "average" funding, and "adequate" liquidity, as our criteria define these terms. We expect that DekaBank will maintain adequate capitalization for its diverse business risks as an asset manager, thanks to limited lending growth and further earnings retention. We anticipate that DekaBank will continue to prudently manage its funding and liquidity risk.

Outlook

The positive outlook on DekaBank reflects the potential that we might reassess DekaBank as a "core" member of the group of German savings banks in the next 18-24 months, which would lead to a one-notch upgrade.

Such an upgrade would require a longer track record of its strategic initiatives enhancing its product penetration with the savings banks and making it integral to the overall strategy of the savings banks group. Indicators would be if the German savings banks fully adopted DekaBank's enlarged investment and advisory process offering, thereby strengthening the share of securities-related business with their retail customers. This would ultimately be reflected in a further increase of the commission income earned by the savings banks from sales of DekaBank products ("Verbundleistung"), which was about €900 million in 2014. Continued strategic stability, a sound financial risk profile, and sound investment performance in its fund business would also be conditions for an upgrade.

Conversely, we could consider revising the outlook to stable if we were to conclude that DekaBank's strategic initiatives had not borne fruit and therefore had not materially changed its current level of integration into the German savings banks sector.

Ratings Score Snapshot

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

Related Criteria And Research

Related criteria

- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Group Rating Methodology, Nov. 19, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Commercial Paper I: Banks, March 23, 2004

Ratings List

Outlook Action; Ratings Affirmed

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DekaBank Deutsche Girozentrale

Counterparty Credit Rating	A/Positive/A-1	A/Stable/A-1
Senior Unsecured	A	A
Senior Unsecured*	AA-	AA-
Subordinated*	AA-	AA-
Short-Term Debt	A-1	A-1
Commercial Paper	A-1	A-1

*Grandfathered debt. These 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.

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