

Research Update:

DekaBank Deutsche Girozentrale Upgraded To 'A+' On Improved Group Resilience Capacity; Outlook Stable

April 17, 2025

Overview

- We expect that the German savings bank sector will remain resilient through the uncertain economic environment due to a robust balance sheet, improved earnings capacity, and strengthened institutional protection scheme.
- We consider DekaBank to be a core subsidiary of the sector and believe that the savings banks would provide support under any circumstances through the Deutscher Sparkassen- und Giroverband (DSGV; the German Savings Banks Association).
- Consequently, we raised our long-term issuer credit rating on DekaBank to 'A+' from 'A' and affirmed our 'A-1' short-term issuer credit rating.
- The stable outlook reflects our expectation that the German savings banks sector will maintain a resilient credit profile amid macroeconomic pressures, leading to sound financial performance and strong support capacity for DekaBank.

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Rating Action

On April 17, 2025, S&P Global Ratings raised its long-term issuer credit rating on DekaBank Deutsche Girozentrale (DekaBank) to 'A+' from 'A'. The outlook is stable.

At the same time, we also raised our issue ratings on DekaBank's senior unsecured and senior subordinated debt by one notch.

We also affirmed its 'A-1' short-term issuer credit rating.

Rationale

The upgrade reflects German savings banks' resilient group credit profile. Despite the current economic challenges, we expect the German savings banks sector will remain resilient due to its strong balance sheet, its entrenched market position in German retail and corporate banking, and its capacity to cover even materially increased credit losses with preprovision income. Notably, the aggregate net income of the sector has consistently been positive throughout the past few decades, underscoring its proven ability to withstand elevated credit losses across multiple crisis.

U.S. tariffs present a significant risk to the German economy by directly affecting trade and increasing policy uncertainty. The savings bank sector's resilience in this environment is supported by its improved earnings profile on the back of a more favorable interest rate environment. Leveraging its strong deposit franchise with a 35% market share in retail customer deposits, German savings banks increased net interest income by about 50% in 2021-2024, adding about €9 billion in additional annual income. As a result, the return on average common equity climbed to 7.6% in 2024 from 2.9% in 2022, while the cost to income ratio improved to 56% from about 70% prior to 2023.

Higher earnings and strong capitalization provide a buffer against asset quality deterioration.

We project that savings banks' preprovision operating income will cover credit losses by approximately 5x-6x in 2025-2026, compared with 3x if preprovision income had remained at 2022 levels. We expect the sector's strong capitalization to persist. It reported a 9.9% regulatory leverage ratio at year-end 2024, and we expect the risk-adjusted capital ratio to continue to gradually improve toward 14% by end-2026. Together, this underscores the savings banks' ability to absorb credit losses well beyond our base case, amid muted economic conditions in Germany and tail risks from worsening trade relations. The sector's ability to absorb losses and smooth earnings also benefits from its risk reserves according to §340f of the German Commercial Code (silent reserves) which are not publicly disclosed and are built and released at the discretion of the individual savings banks.

Strengthened institutional protection scheme limits tail risks from Landesbanks. After a protracted rescue of Nord LB in 2019 drew criticism from regulators in 2019, DSGV overhauled the Institutional Protection Scheme (IPS) to improve decision-making efficiency and overall effectiveness, fostering greater cohesion within the group. Key changes include expedited decision-making processes, enhanced monitoring of members through quantitative early intervention triggers, access to unlimited additional contributions under certain conditions, the establishment of a dedicated audit unit, and improved stress-testing capabilities. This increases the likelihood of timely and sufficient support within the sector. In our view, these changes primarily offer some mitigation to downside risks from the Landesbanks, which the savings banks and regional authorities jointly own, in times of stress, because they typically have more concentrated portfolios and engage in riskier activities like commercial real estate lending, which represents about 30% of their customer loan portfolio.

Our ratings on DekaBank benefit from its ownership by and integration with the German savings banks. Reflecting this, we apply three notches of uplift from the 'bbb+' stand-alone credit profile, reflecting its core status to its ultimate owners, the German savings banks. In the unlikely event that DekaBank required extraordinary support, we believe that DSGV, which holds a 100% stake in DekaBank on behalf of the savings banks, would serve as the principal source of such support.

DekaBank's 2024 full-year financials affirmed its good financial performance and its strategic role for the savings bank sector.

DekaBank reported net sales of €29 billion in 2024, including funds and certificate volumes with retail and institutional clients, and a total managed asset and certificate volume of €416 billion at the year-end. The result underlines DekaBank's distribution capacity and, considering the paid commissions to the savings banks, it also shows its relevance for the sector as the primary hub for asset management and other security business.

Outlook

The stable outlook reflects our expectation that the German savings banks, which own 100% of DekaBank, will maintain its strong market position in the German market, as well as sound financial performance and healthy capital buffers to absorb higher credit losses amid slower economic growth and geopolitical upheaval.

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

Downside scenario

We could lower our ratings on DekaBank if:

- German savings banks' credit losses appear likely to weaken far more materially than under our base case;
- The market position of German savings banks deteriorates;
- There are developments that weaken the sector's overall group cohesion or increase tail risks from the participations in the Landesbanks; or
- If the savings banks deprioritized selling DekaBank's products over a prolonged period, potentially leading to weakening integration and strategic relevance for the sector.

Upside scenario

We currently consider a positive rating action to be remote. A prerequisite is that we revise up the anchor for German domestic banks to 'a-', highlighting that the economic environment has become more supportive and structural challenges have eased.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	A+/Stable/A-1	A/Positive/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)

	To	From
Issuer Credit Rating	A+/Stable/A-1	A/Positive/A-1
Funding and liquidity	Adequate and adequate (0)	Adequate and adequate (0)
Comparable ratings analysis	+1	+1
Support	+3	+2
ALAC support	0	0
GRE support	0	0
Group support	+3	+2
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, Feb. 10, 2025
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- 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. 10, 2024

Ratings List

Ratings Affirmed

DekaBank Deutsche Girozentrale

Commercial Paper	A-1
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Upgraded

	To	From
DekaBank Deutsche Girozentrale		
Senior Unsecured	A+	A
Senior Subordinated	A	A-

Upgraded; Outlook Action; Ratings Affirmed

	To	From
DekaBank Deutsche Girozentrale		
Issuer Credit Rating	A+/Stable/A-1	A/Positive/A-1

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