STANDARD & POOR'S

Standard & Poor's Research

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DekaBank Deutsche Girozentrale

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DekaBank Deutsche Girozentrale

Major Rating Factors

Counterparty Credit Rating
A/Stable/A-1

Strengths:

- Three notches of uplift, owing to the potential for group support from the German savings banks.
- Strong market position from ties to the German savings banks sector.
- Adequate capital and liquidity positions.

Weaknesses:

- Slightly weaker and smaller franchise than peers'.
- Volatile pretax profits because of limited diversification and credit spread risks.
- Reliance on wholesale funding.

Outlook: Stable

Standard & Poor's Ratings Services' outlook on Germany-based DekaBank Deutsche Girozentrale is stable. This indicates that we don't expect substantial changes to our assessment of DekaBank's business and risk position or its group status within the next one or two years. In addition, we believe that DekaBank will maintain adequate capitalization, reflected in a risk-adjusted capital (RAC) ratio of about 7.5%, as a result of modest growth of its risk-weighted assets (according to our definition) and earnings retention. In addition, we expect DekaBank to continue managing its funding and liquidity prudently and that it would receive support from its savings banks owners if necessary.

We could take negative rating actions if we anticipate a fall of DekaBank's RAC ratio to less than 7%, for example due to unexpected impairment losses, higher-than-expected growth in risk-weighted assets, or higher dividend payments due to a change in capital policy.

We consider positive rating actions less likely over the outlook horizon, since this would require a massive strengthening of DekaBank's capitalization or structural improvements of its business and risk profiles, which we consider difficult to achieve within the next one to two years.

Rationale

Our ratings on DekaBank reflect its 'a-' anchor, as well as our view of its "moderate" business position, "adequate" capital and earnings, "moderate" risk position, "average" funding, and "adequate" liquidity, as our criteria define these terms. The stand-alone credit profile (SACP) is 'bbb'. The ratings benefit from a three-notch uplift for potential support from DekaBank's owners, the German savings banks, in a crisis.

Anchor:'a-'

Under our bank criteria, we use our Banking Industry Country Risk Assessment's economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a commercial bank operating only in Germany is 'a-', based on an economic risk score of '1' and an industry risk score of '3'.

Our economic risk assessment reflects Germany's highly diverse and competitive economy and lack of major economic imbalances. An export-led economy, Germany remains vulnerable to swings in global economies, trade flows, and capital market trends, however.

Industry risk benefits from Germany's extensive funding market and banks' domestic funding surpluses from low domestic credit growth and high savings rates. However, the sector's competitive dynamics result in relatively low profitability, which is fueled by significant disparities in commercial targets and the business and risk profiles of market players.

To assess the economic risk for DekaBank, we analyzed the weighted average of its loans to private-sector nonbanks in each country in which it operates. Because about 70% of DekaBank's lending exposures are in countries with weaker economic risk scores than that on Germany, its weighted economic risk is higher than that for lending institutions with higher proportions of domestic loans, but not to the extent that it affects the anchor.

Table 1

DekaBank Deutsche Girozentrale Key Figures

		--Year-ended Dec. 31--			
(Mil. €)	**2011***	**2010**	**2009**	**2008**	**2007**
Adjusted assets	123,600.7	130,203.3	133,164.6	138,462.4	106,341.5
Customer loans (gross)	30,125.8	29,831.1	26,740.2	33,366.0	24,821.4
Adjusted common equity	3,206.3	4,050.3	3,407.4	3,377.1	3,129.2
Operating revenues	866.0	1,714.4	1,761.5	1,079.1	1,061.9
Noninterest expenses	490.1	904.7	900.6	840.5	718.3
Core earnings	200.9	659.3	358.0	(103.8)	305.8

*Data as of June 30.

Business position: Leading domestic asset manager, with ancillary commercial banking activites

Our assessment of DekaBank's "moderate" business position reflects the balance between its sound market position as one of the leading domestic provider of asset management products, predominantly for clients of the German savings banks, and its below-average market position in commercial banking. We believe DekaBank's franchise lacks the breadth and strength of peers' and has displayed significant revenue volatility.

Since June 2011, DekaBank has been fully owned by the German savings banks. This occurred after DekaBank's capital buyback from the Landesbanks, which helped the savings banks to facilitate the acquisition of the remaining 50% stake from the Landesbanks.

We consider DekaBank's strong link to the savings banks, its sole distribution channel for retail mutual funds, instrumental for the stability of its asset management business. In addition, the ownership structure reduces the inherent confidence sensitivity of DekaBank's commercial banking business. Fee income from DekaBank's asset management business has been stable over the past decade, despite significant financial market turbulence.

While DekaBank is not allowed to sell funds to retail customers outside of the savings bank universe, its institutional fund business is open to all potential clients. However, margins are low and its client base remains dominated by the savings banks. DekaBank has very limited franchise recognition abroad and fund sales outside of Germany are marginal, in our view.

We consider that DekaBank's often opportunistic commercial banking business lacks diversity and is not linked to its asset management business, which we consider its core franchise. Management's strategy to transform DekaBank into a capital-markets-led institution suffered a setback due to the financial market crisis. The implications of the change in ownership on DekaBank's strategy remain to be seen, but we consider it possible that the savings banks would favor a reduced risk appetite and a renewed focus on the asset management business.

Table 2

DekaBank Deutsche Girozentrale Business Position

		--Year-ended Dec. 31--			
(%)	**2011***	**2010**	**2009**	**2008**	**2007**
Total revenues from business line (mil. €)	866.0	1,714.4	1,761.5	1,079.1	N/A
Corporate finance/total revenues from business line	22.7	27.3	52.0	72.9	N.M.
Asset management/total revenues from business line	57.1	58.7	52.8	75.9	N.M.
Other revenues/total revenues from business line	20.1	14.0	(4.8)	(48.8)	N.M.
Return on equity	12.2	15.8	11.0	(2.6)	12.3

*Data as of June 30. N/A--Not applicable. N.M.--Not meaningful.

Capital and earnings: RAC ratio benefitted from high earnings retention in 2010, but unlikely to increase over the next 1-2 years

Our assessment of DekaBank's capital and earnings as "adequate" reflects our view that its RAC ratio will not deteriorate further. The RAC ratio had fallen slightly to less than 8% in 2011 after a 9.6% pro forma RAC ratio as of year-end 2010. The decline followed DekaBank's capital buyback of €1 billion from the Landesbanks in 2011, which was partly offset by earnings retention of €0.6 billion.

DekaBank's exposure to the financial markets weighs on our assessment of its earnings quality and capacity and creates uncertainties about its ability to build capital in the current market environment. Furthermore, it remains to be seen whether the change in ownership to the savings banks will affect DekaBank's ability to retain earnings. This is because the savings banks, which are DekaBank's sole distribution channel for retail mutual funds, may require higher distribution fees or pay-out ratios than in the past.

DekaBank's asset management fees stayed resilient despite stock market volatility over the past decade, and the bank has avoided major losses in its commercial banking business. Nevertheless, DekaBank's earnings have become more volatile as a result of increased credit- and market-related credit spread risks. We forecast the bank's three-year average earnings buffer to be in the range of 80 basis points (bps) to 100bps for the next 12 months, which is adequate in our view. Our estimate of normalized credit losses for DekaBank far exceeds its historical loan loss provisions, excluding those relating to Icelandic banks in 2008 and 2009. We see only little scope for the bank to absorb potential future losses on its securities holdings.

Table 3

DekaBank Deutsche Girozentrale Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2011***	**2010**	**2009**	**2008**	**2007**
Tier 1 capital ratio	11.7	12.9	9.7	8.4	6.9
S&P RAC ratio before diversification	N.M.	9.9§	N.M.	N.M.	N.M.
S&P RAC ratio after diversification	N.M.	10.2§	N.M.	N.M.	N.M.
Adjusted common equity/total adjusted capital	86.5	89.0	87.2	87.1	86.2

Table 3

DekaBank Deutsche Girozentrale Capital And Earnings (cont.)					
Net interest income/operating revenues	12.5	18.5	24.3	34.4	17.4
Fee income/operating revenues	60.0	61.9	55.6	88.8	92.7
Market-sensitive income/operating revenues	24.5	17.2	17.0	(25.9)	(14.7)
Noninterest expenses/operating revenues	56.6	52.8	51.1	77.9	67.6
Preprovision operating income/average assets	0.6	0.6	0.6	0.2	0.3
Core earnings/average managed assets	0.3	0.5	0.3	(0.1)	0.3

*Data as of June 30. §Based on BICRA scores as of Dec. 31, 2010. N.M.--Not meaningful.

Table 4

DekaBank Deutsche Girozentrale RACF [Risk-Adjusted Capital Framework] Data

(Mil. €)	Exposure*	Basel II RWA	Average Basel II RW (%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Credit risk					
Government and central banks	14,085	575	4.1	1,120	8.0
Institutions	41,588	2,288	5.5	8,094	19.5
Corporate	24,044	12,638	52.6	19,631	81.6
Retail	74	50	67.6	44	60.0
Of which mortgage	0	0	0.0	0	0.0
Securitization	3,047	1,388	45.5	2,342	76.9
Other assets	989	875	88.5	1,042	105.4
Total credit risk	83,827	17,813	21.2	32,274	38.5
Market risk					
Equity in the banking book§	425	0	0.0	3,222	758.1
Trading book market risk	--	5,575	--	8,363	--
Total market risk	--	5,575	--	11,584	--
Operational risk					
Total operational risk	--	1,650	--	3,304	--

(Mil. €)	Basel II RWA	Standard & Poor's RWA	% of Standard & Poor's RWA
Diversification adjustments			
RWA before diversification	25,038	47,162	100.0
Total adjustments to RWA	--	(1,796)	(3.8)
RWA after diversification	25,038	45,366	96.2

(Mil. €)	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	Standard & Poor's RAC ratio (%)
Capital ratio				
Capital ratio before adjustments	3,317	13.2	4,550	9.6‡
Capital ratio after adjustments†	3,317	12.9	4,550	10.0‡

*Exposure at default. Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. §Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. †Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). ‡Based on BICRA scores as of Dec. 31, 2011. RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2010, Standard & Poor's.

Risk position: Lower lever of diversification in DekaBank's commercial business

Our risk position assessment for DekaBank is "moderate", reflecting the bank's lower level of risk diversification, due to its wholesale-oriented portfolio mix and the limited reach of its client franchise. Overall, we regard DekaBank's commercial banking business as riskier than its core asset management activities.

In addition, our RAC ratio could understate certain risks, such as operational risks from DekaBank's asset management business or credit spread risks from its securities holdings. This is underpinned by DekaBank's loss experience, particularly in 2008 when it suffered from losses on loans and markdowns on credit investments. Nevertheless, DekaBank did not need extraordinary support during the recent downturn. We expect DekaBank to reduce its securities exposures and exit riskier activities under its new ownership structure.

Moreover, DekaBank's higher leverage and reliance on mathematical models indicate the greater complexity of its operations compared with those of domestic retail banks. This is mitigated by DekaBank's lower exposure to traded securitization tranches and the good track record of its loan book compared with peers'.

Table 5

DekaBank Deutsche Girozentrale Risk Position

		--Year-ended Dec. 31--			
(%)	**2011***	**2010**	**2009**	**2008**	**2007**
Growth in customer loans	2.0	11.6	(19.9)	34.4	10.6
Total diversification adjustment / S&P RWA before diversification	N.M.	(2.9)	N.M.	N.M.	N.M.
Total managed assets/adjusted common equity (x)	38.6	32.2	39.1	41.0	34.0
New loan loss provisions/average customer loans	0.4	(0.2)	1.2	1.0	(0.1)
Net charge-offs/average customer loans	0.1	0.1	0.2	0.3	0.1
Gross nonperforming assets/customer loans + other real estate owned	3.7	2.5	3.4	1.6	0.4
Loan loss reserves/gross nonperforming assets	18.0	27.2	28.1	24.0	134.9

*Data as of June 30.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Funding and liquidity: Broadly matched wholesale funding and liquidity access through the savings banks

DekaBank's funding is "average" and its liquidity position is "adequate" in our view. DekaBank is purely wholesale funded, which we consider a relative weakness. However, it appears to apply a largely matched funding policy to mitigate funding and liquidity risks, which we regard as positive relative to domestic wholesale-oriented banks. More than 90% of long-term assets maturing after one year are refinanced with liabilities carrying similar maturities. Including short-term customer deposits, this ratio increases to more than 100%. About 20% of funding is through covered bonds.

In addition, DekaBank benefits from its access to the savings banks and the liquidity it can raise through sale and repurchase activities at its asset management business. DekaBank did not require extraordinary liquidity support during the recent downturn.

Table 6

DekaBank Deutsche Girozentrale Funding And Liquidity

		--Year-ended Dec. 31--			
(%)	**2011***	**2010**	**2009**	**2008**	**2007**
Core deposits/funding base	28.8	28.1	32.3	34.7	31.7

Table 6

DekaBank Deutsche Girozentrale Funding And Liquidity (cont.)					
Customer loans (net)/customer deposits	135.5	138.6	111.4	103.4	93.6
Long term funding ratio	64.2	66.2	71.2	66.7	70.5
Broad liquid assets/short-term wholesale funding (x)	1.5	1.3	1.5	1.1	1.3
Short-term wholesale funding/total wholesale funding	67.2	53.0	51.5	67.1	61.8

*Data as of June 30. N/A--Not applicable.

External support: Three notches of uplift for potential group support

The long-term counterparty credit rating is three notches higher than the SACP, reflecting our view of DekaBank as a "strategically important" subsidiary of its sole owner the German savings banks via its central association Deutscher Sparkasen- und Giroverband. DekaBank is a member of the savings banks' protection scheme, but the track record of support from the savings banks is limited, although this was based on partial ownership in the past.

We consider that DekaBank has moderate systemic importance in Germany, but in accordance with our criteria we apply the higher indicative rating resulting from either our group support framework or the government support framework.

Additional Rating Factors: None

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Group Rating Methodology And Assumptions, Nov. 9, 2011

Ratings Detail (As Of January 26, 2012)	
DekaBank Deutsche Girozentrale	
Counterparty Credit Rating	A/Stable/A-1
Certificate Of Deposit	A/A-1
Commercial Paper	
Local Currency	A-1
Senior Secured (1 Issue)	AAA
Senior Secured (45 Issues)	AAA/Stable
Short-Term Debt (2 Issues)	A-1
Subordinated (1 Issue)	A-
Counterparty Credit Ratings History	
08-Dec-2011	A/Stable/A-1
12-Apr-2011	A/Negative/A-1
19-Jul-2005	A/Stable/A-1
Sovereign Rating	
Germany (Federal Republic of) (Unsolicited Ratings)	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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