

DZ BANK AG Deutsche Zentral-Genossenschaftsbank

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Table Of Contents

Credit Highlights

DZ BANK Will Continue To Play An Integral Role For The Cooperative
Banking Sector Germany

Services Provided By DZ BANK Group Strengthen The Overall Competitive
Position Of The Sector

Capitalization Remains Weaker Than For The Overall Cooperative Banking
Sector

DZ BANK's Funding Position Is Supported By Primary Banks' Excess
Liquidity

No Uplift For Additional Loss-Absorbing Capacity (ALAC) Due To Stronger
Group Support And An Unlikely Resolution Scenario

Outlook

Rated Subsidiaries

Rated Hybrids

Table Of Contents (cont.)

Key Statistics

Related Criteria

Related Research

DZ BANK AG Deutsche Zentral-Genossenschaftsbank

Credit Highlights

Issuer Credit Rating

A+/Stable/A-1

Overview

Key strengths	Key risks
Role as the central institute of the German cooperative banking sector, which makes it integral to the sector's identity and a core group member.	Weaker risk profile and capitalization than its owners, the local cooperative banks.
Benefits from mutual support within the sector and a comprehensive protection scheme.	Intense competition and margin pressure in German corporate banking.
Good market position in German corporate banking.	Earnings sensitivity to capital market conditions in its insurance and asset management subsidiaries.

DZ BANK Will Continue To Play An Integral Role For The Cooperative Banking Sector Germany

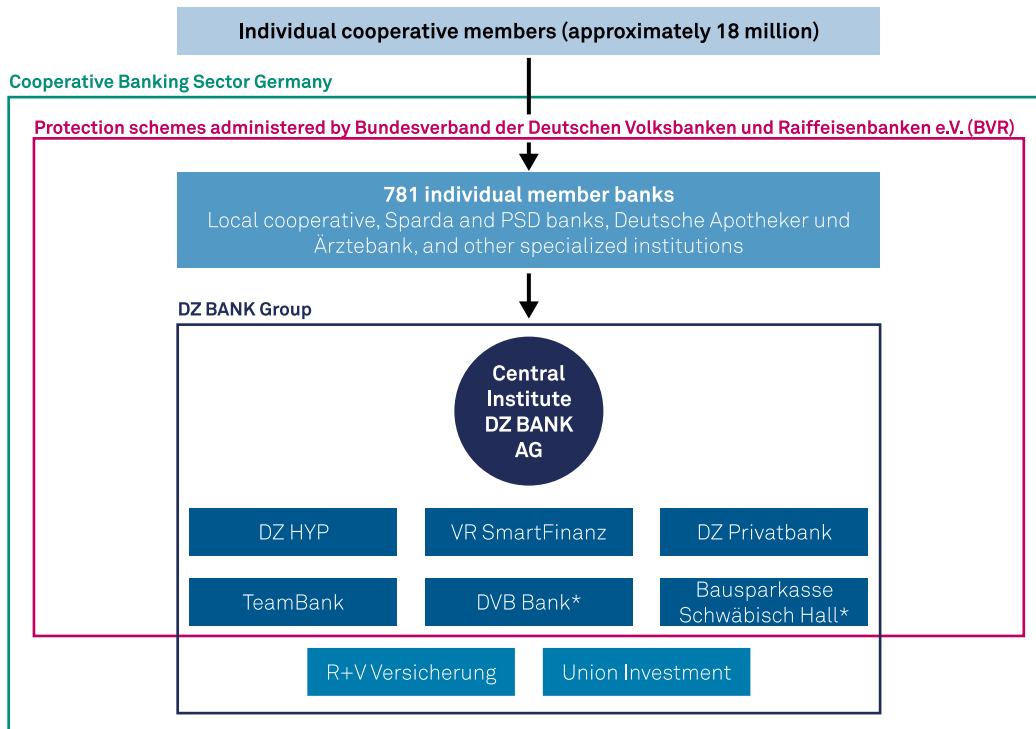
In this role, DZ BANK provides core services to the sector such as liquidity management, funding, and wholesale banking products. We reflect this in our assessment of DZ BANK's core group status for the sector and equalize our long-term issuer credit rating (ICR) on the bank with the group credit profile of 'a+' (see "Cooperative Banking Sector Germany", published March 25, 2022, on RatingsDirect). Based on the solidarity within the sector and its comprehensive protection scheme--administered by Bundesverband der Deutschen Volksbanken und Raiffeisenbanken--we expect sector banks with core group status to support each other in all foreseeable circumstances.

Services Provided By DZ BANK Group Strengthen The Overall Competitive Position Of The Sector

DZ BANK Group, which, beyond DZ BANK AG, consolidates specialized institutions like Union Investment, R+V Versicherung, DZ HYP, Bausparkasse Schwäbisch Hall, DZ PRIVATBANK, TeamBank, and VR Smart Finanz provides both central and tailored banking functions to the primary institutions (largely local cooperative banks). On one hand, DZ BANK Group depends on the distribution power of the local cooperative banks. On the other hand, DZ BANK Group supports the competitive position and extends the product offerings of the cooperative banking sector. Overall, we regard DZ BANK's more wholesale-oriented activities as carrying greater risk than the activities of local banks, due to a combination of larger and more complex exposures.

Chart 1

Cooperative Banking Sector Germany -- Organizational Structure



*Not rated. Source: S&P Global Ratings.
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Capitalization Remains Weaker Than For The Overall Cooperative Banking Sector

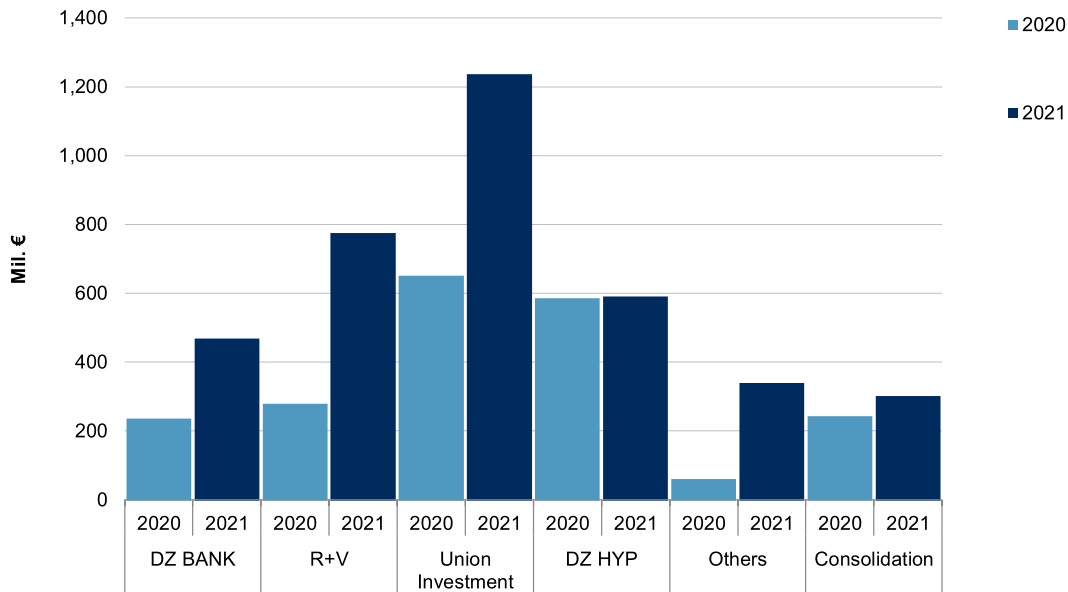
With a risk-adjusted capital (RAC) ratio of 9.9% as of end-2020, DZ BANK's capitalization is weaker than that of the consolidated cooperative banking sector, which has an RAC ratio of 14.4%, but in line with that of domestic peers Deutsche Bank AG and Commerzbank AG. This shows that capital is unevenly split among members. While DZ BANK's regulatory Common Equity Tier (CET) 1 ratio of 15.3% as of end-2021 indicates good capitalization, we think additional capital would be available if needed.

DZ BANK's 2021 result showed an extraordinarily strong performance, with net income of €2.2 billion (€3.1 billion before tax), up from €1 billion (€1.5 billion) in 2020. The improvement was primarily thanks to a strong fee performance at Union Investment, a strong valuation result at R+V, and the reversal of loan loss provisions built up in 2020. For 2022, we expect a net income of €1.0 billion-€1.5 billion.

Chart 2

2021 Group Result Driven By Stronger Earnings In All Segments, Especially Asset Management And Insurance

Reported pretax profits by segment, 2020 versus 2021



Source: Company reporting; S&P Global Ratings. "Others" includes BSH, TeamBank, DZ Privatbank, VR SmartFinanz, and DVB. "Consolidation" also includes the holding functions of DZ BANK. Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

DZ BANK's Funding Position Is Supported By Primary Banks' Excess Liquidity

The excess liquidity of the primary institutions is generally channeled to DZ BANK, enabling it to manage the sector's aggregate liquidity needs. Within DZ BANK, funding sources are well diversified, but DZ BANK and its subsidiaries rely to a large extent on wholesale funding, particularly by issuing covered bonds through DZ HYP and other covered instruments (DZ Briefe). DZ BANK is entitled to include claims against the sector's members in its cover pool for these instruments. DZ BANK also has a \$15 billion commercial paper program in place and access to the U.S. Federal Reserve through its New York branch.

No Uplift For Additional Loss-Absorbing Capacity (ALAC) Due To Stronger Group Support And An Unlikely Resolution Scenario

While DZ BANK is subject to the minimum requirement for own funds and eligible liabilities, we do not add any notches of uplift to the rating for ALAC. We consider group support within the cooperative banking sector to be the strongest support element. In addition, we see a bail-in scenario as highly unlikely, as that would imply a lack of solidarity within the sector. We therefore do not assign resolution counterparty ratings to DZ BANK.

Outlook

Our stable outlook on DZ BANK mirrors the outlook on the Cooperative Banking Sector Germany as we equalize the ratings. The stable outlook on the sector reflects our expectation that its additional investments in its digital competencies will allow it to substantially defend its strong market position and earnings over the next two years.

Downside scenario

While it is a fairly remote prospect, we could lower our ratings on the sector's core members, including DZ BANK, and our related issue ratings if the sector's market position deteriorates materially, weakening its revenue pool and risk-adjusted profitability, or if competitive pressure leads to material signs of increasing risk appetite.

Upside scenario

We could raise the ratings on the Cooperative Banking Sector Germany and DZ BANK if we conclude that structural challenges in German retail and small-to-midsize enterprise banking have eased such that we would raise the anchor for domestic banks to 'a-', or if we believe that the sector is mastering the competitive environment better than its peers. This would require material progress in offering digital banking products and addressing structural weaknesses, such as weak cost efficiency and modest profitability. We could also consider a higher rating if the sector's consolidated capitalization improves further, leading our RAC ratio to rise sustainably above 15%. At the same time, we would need to consider capital to be fungible within the sector to support more weakly capitalized primary banks if needed. An upgrade would also depend on a favorable comparison with peers supporting a higher rating.

Rated Subsidiaries

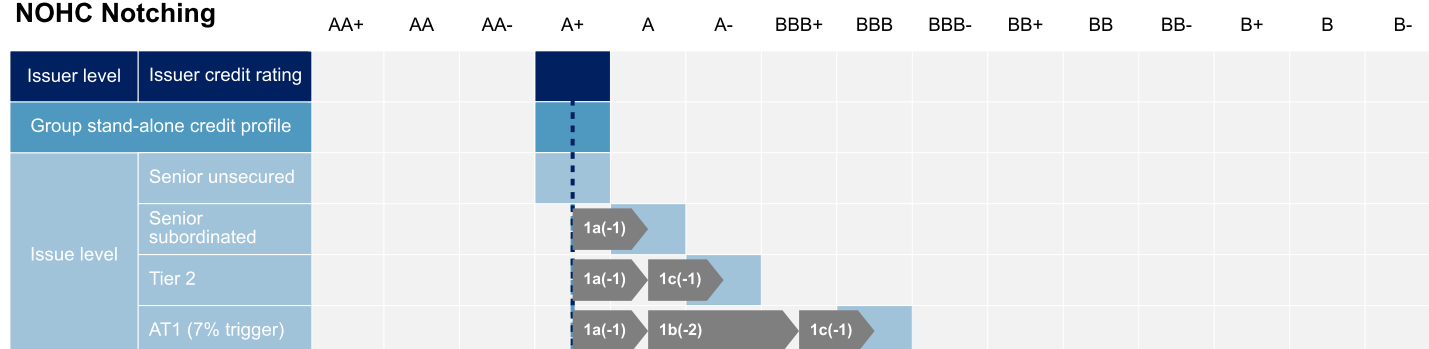
We rate DZ BANK's material subsidiaries based on their core group status in the Cooperative Banking Sector Germany, except Bausparkasse Schwäbisch Hall (see chart 1). This also holds for Deutsche WertpapierService Bank AG (dwpbank), of which DZ BANK only owns 50% of the shares. DZ Bank developed dwpbank and it caters to a wide range of German savings banks and some other commercial banks in Germany. New clients onboard their business activities to dwpbank's servicing platform and in turn, typically become shareholders in dwpbank. Nevertheless, we see dwpbank as a core subsidiary given its close integration with the overall sector and its membership of the sector's protection scheme.

Rated Hybrids

We notch down the issue ratings on the hybrid instruments issued by DZ BANK from the ICR because the bank is a core subsidiary of the sector, and we expect that the overall group would support DZ BANK to prevent losses on these instruments. We believe that other sector members hold a material portion of these instruments and we see reputational risk associated with a default of the issuer of these instruments. In determining the specific issue ratings on all these instruments, we deduct our standard notching.

For the additional Tier 1 instruments issued by DZ BANK, we deduct four notches from the ICR to reflect the instruments' Tier 1 regulatory capital status and the contingent capital clause. However, we do not deduct further notches as we expect DZ BANK to maintain a buffer of more than 700 basis points (bps) above the going concern trigger of a CET1 ratio of 7% at both the DZ BANK consolidated group and stand-alone levels. The bank's consolidated CET1 ratio at end-2021 was 15.3%, or 830 bps above the trigger level.

DZ BANK AG Deutsche Zentralgenossenschaftsbank (Core Member of Cooperative Banking Sector Germany): NOHC Notching



Key to notching

- Group stand-alone credit profile
- Issuer credit rating
- 1a Contractual subordination
- 1b Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
- 1c Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 2 of our “Hybrid Capital: Methodology And Assumptions” criteria, published on March 2, 2022.

The nonoperating holding company (NOHC) issuer credit rating and senior unsecured debt ratings are notched from the group stand-alone credit profile (SACP) under our criteria. Since ALAC notching does not benefit NOHCs, for simplicity the diagram above is stylized to show the positioning of these ratings with reference to the group SACP.

AT1--Additional Tier 1.

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Key Statistics

Table 1

DZ BANK AG Deutsche Zentral-Genossenschaftsbank--Key Figures					
--Year ended Dec. 31--					
(Mil. €)	2021	2020	2019	2018	2017
Adjusted assets	497,465.0	472,219.0	445,327.0	417,416.0	408,543.0
Customer loans (gross)	195,665.0	190,294.0	186,224.0	174,438.0	174,376.0
Adjusted common equity	16,992.7	15,534.4	15,269.0	14,458.0	15,225.0
Operating revenues	7,241.0	6,163.0	7,116.0	5,567.0	6,555.0
Noninterest expenses	4,265.0	4,036.0	4,074.0	4,059.0	3,868.0
Core earnings	2,176.0	976.0	1,873.7	1,038.6	1,153.2

Table 2

DZ BANK AG Deutsche Zentral-Genossenschaftsbank--Business Position					
--Year ended Dec. 31--					
(%)	2021	2020	2019	2018	2017
Total revenues from business line (€ mil.)	7,241.0	6,169.0	7,115.0	5,578.0	6,555.0
Commercial banking/total revenues from business line	36.9	47.7	42.8	44.4	42.7
Retail banking/total revenues from business line	20.0	22.4	19.6	23.1	22.8
Commercial & retail banking/total revenues from business line	56.9	70.1	62.4	67.6	65.5
Insurance activities/total revenues from business line	10.7	4.5	15.7	7.4	12.1
Asset management/total revenues from business line	32.5	25.4	21.9	25.0	22.4
Return on average common equity	8.2	3.8	8.0	4.1	4.9

Table 3

DZ BANK AG Deutsche Zentral-Genossenschaftsbank--Capital And Earnings					
--Year ended Dec. 31--					
(%)	2021	2020	2019	2018	2017
Tier 1 capital ratio	16.8	16.6	15.9	14.3	15.3
S&P Global Ratings' RAC ratio before diversification	N/A	9.9	9.1	8.3	8.6
S&P Global Ratings' RAC ratio after diversification	N/A	10.8	9.8	9.0	9.3
Adjusted common equity/total adjusted capital	88.8	87.8	87.9	87.3	87.9
Net interest income/operating revenues	38.0	44.4	37.9	49.5	44.0
Fee income/operating revenues	40.5	34.4	27.8	35.1	28.4
Market-sensitive income/operating revenues	7.4	9.4	11.2	5.1	12.8
Cost-to-income ratio	58.9	65.5	57.3	72.9	59.0
Preprovision operating income/average assets	0.5	0.4	0.6	0.3	0.5
Core earnings/average managed assets	0.4	0.2	0.3	0.2	0.2

N/A--Not applicable. RAC--Risk-adjusted capital.

Table 4

DZ BANK AG Deutsche Zentral-Genossenschaftsbank--Risk-Adjusted Capital Framework Data					
(Mil. €)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government & central banks	120,482.9	1,102.9	0.9	3,947.1	3.3
Of which regional governments and local authorities	23,655.7	262.0	1.1	1,137.8	4.8
Institutions and CCPs	147,499.3	8,725.4	5.9	25,615.2	17.4
Corporate	117,764.8	60,793.8	51.6	84,930.0	72.1
Retail	90,419.8	18,582.3	20.6	24,894.9	27.5
Of which mortgage	71,507.8	10,256.1	14.3	13,551.4	19.0
Securitization§	7,298.0	4,112.5	56.4	7,144.3	97.9
Other assets†	3,203.8	2,287.1	71.4	(750.1)	(23.4)
Total credit risk	486,668.6	95,604.0	19.6	145,781.4	30.0

Table 4

DZ BANK AG Deutsche Zentral-Genossenschaftsbank--Risk-Adjusted Capital Framework Data (cont.)					
Credit valuation adjustment					
Total credit valuation adjustment	--	1,090.6	--	2,012.2	--
Market risk					
Equity in the banking book	4,306.1	3,686.7	85.6	8,591.8	199.5
Trading book market risk	--	8,388.3	--	9,390.5	--
Total market risk	--	12,075.0	--	17,982.3	--
Operational risk					
Total operational risk	--	10,607.8	--	12,304.7	--
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
Diversification adjustments					
RWA before diversification	--	147,237.4	--	178,080.6	100.0
Total diversification/ concentration adjustments	--	--	--	(14,618.5)	(8.2)
RWA after diversification	--	147,237.4	--	163,462.0	91.8
		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		25,077.9	17.0	17,683.4	9.9
Capital ratio after adjustments†		25,077.9	17.0	17,683.4	10.8

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' 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). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. CCPs--Central counterparty clearing house. Sources: Company data as of Dec. 31, 2020, S&P Global Ratings.

Table 5

DZ BANK AG Deutsche Zentral-Genossenschaftsbank--Risk Position					
	--Year ended Dec. 31--				
(%)	2021	2020	2019	2018	2017
Growth in customer loans	2.8	2.2	6.8	0.0	(1.2)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(8.2)	(7.6)	(7.5)	(7.7)
Total managed assets/adjusted common equity (x)	36.9	38.3	36.6	35.9	33.2
New loan loss provisions/average customer loans	(0.1)	0.4	0.2	0.0	0.5
Gross nonperforming assets/customer loans + other real estate owned	1.5	2.0	2.1	2.4	3.0
Loan loss reserves/gross nonperforming assets	66.5	60.0	57.0	52.6	52.3

N/A--Not applicable. RWA--Risk-weighted assets.

Table 6

DZ BANK AG Deutsche Zentral-Genossenschaftsbank--Funding And Liquidity					
	--Year ended Dec. 31--				
(%)	2021	2020	2019	2018	2017
Core deposits/funding base	31.1	32.1	33.4	35.9	35.2
Customer loans (net)/customer deposits	139.3	140.2	139.8	129.5	135.0
Long-term funding ratio	73.3	72.5	68.0	71.3	71.5
Stable funding ratio	109.0	104.1	95.3	97.9	97.9
Short-term wholesale funding/funding base	28.4	29.3	34.1	30.4	30.2
Broad liquid assets/short-term wholesale funding (x)	1.3	1.2	1.0	1.0	1.0
Broad liquid assets/total assets	26.4	24.2	23.1	22.6	22.1
Broad liquid assets/customer deposits	119.2	107.4	98.1	88.1	87.9
Net broad liquid assets/short-term customer deposits	78.5	50.5	(13.6)	10.6	7.1
Short-term wholesale funding/total wholesale funding	40.9	42.8	50.8	47.0	46.2
Narrow liquid assets/3-month wholesale funding (x)	1.4	1.3	1.0	1.1	1.1

Related Criteria

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- 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

- Cooperative Banking Sector Germany, March 25, 2022
- German Bank Ratings Affirmed Under Revised Financial Institutions Criteria, Jan. 28, 2022
- Various German Banks Downgraded On Persistent Profitability Challenges And Slow Digitalization Progress, June 24, 2021
- Green Transaction Evaluation: DZ BANK AG's €300 Million Fixed-Rate Nonpreferred Senior Notes, Nov. 17, 2021
- Second Party Opinion: DZ BANK AG Green Bond Framework, Nov. 1, 2021

Ratings Detail (As Of April 11, 2022)***DZ BANK AG Deutsche Zentral-Genossenschaftsbank**

Issuer Credit Rating	A+/Stable/A-1
Commercial Paper	
<i>Foreign Currency</i>	A+/A-1
<i>Local Currency</i>	A-1
Junior Subordinated	BBB
Senior Secured	AA+/Stable
Senior Subordinated	A
Senior Unsecured	A+
Short-Term Debt	A-1+
Subordinated	A-

Issuer Credit Ratings History

24-Jun-2021	A+/Stable/A-1
17-Sep-2019	AA-/Negative/A-1+
05-Dec-2011	AA-/Stable/A-1+

Sovereign Rating

Germany	AAA/Stable/A-1+
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*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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