DZ BANK AG Deutsche Zentral-Genossenschaftsbank

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	AA−
Short-Term IDR	F1+

Sovereign Risk

Foreign-Currency Long-Term IDR	AAA
Local-Currency Long-Term IDR	AAA

Outlooks

Foreign-Currency Long-Term IDR	Stable
Sovereign Foreign-Currency Long-Term IDR	Stable
Sovereign Local-Currency Long-Term IDR	Stable

Financial Data

DZ BANK AG Deutsche Zentral-Genossenschaftsbank

	2016	2015[a]
Total assets (USDbn)	565	445
Total assets (EURbn)	509	408
Total equity (EURbn)	21	18
Operating profit (EURm)	1,896	2,461
Net income (EURm)	1,606	1,796
Operating ROAA (%)	0.4	0.6
Operating ROAE (%)	9.7	15.3
Internal capital generation (%)	6.0	8.2
Fitch Core Capital ratio (%)	11.3	11.1
Common equity Tier 1 Capital ratio (%)[b]	14.5	13.0
Tier 1 ratio (%)	16.0	15.6
Leverage ratio (Basel III)[b]	4.1	4.0

[a] Pre-merger
[b].Fully loaded

Related Research

Genossenschaftliche FinanzGruppe – Ratings Navigator (January 2017)

Fitch Withdraws WGZ BANK's Ratings on Merger With DZ BANK (August 2016)

Fitch Assigns Derivative Counterparty and Deposit Ratings to German Banks (December 2016)

2017 Outlook: German Banks (December 2016)

Germany (March 2017)

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Key Rating Drivers

Group Ratings: DZ BANK AG Deutsche Zentral-Genossenschaftsbank and its main banking subsidiaries are members of the mutual support scheme of the German cooperative banking group (Genossenschaftliche FinanzGruppe, GFG; AA−/Stable/aa−). Fitch Ratings applies GFG's Issuer Default Ratings (IDRs), which are driven by GFG's Viability Rating (VR), to the scheme's members in line with its approach to rating banking groups backed by mutual support.

GFG's Central Institution: DZ BANK assists GFG's about 970 local cooperative ("primary") banks with liquidity clearing functions, core banking products and capital market access. With its specialised subsidiaries, the bank underpins GFG's strong domestic franchise in mortgage, consumer and SME lending, insurance, and asset management. DZ BANK has no statutory authority over the primary banks unlike central bodies at other European mutual banking groups, nor is this envisaged for the holding company structure planned for DZ BANK by 2020.

WGZ BANK Merger Increases Cohesion: DZ BANK merged with WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, GFG's smaller central institution, in 3Q16. We view the merger positively as it increases GFG's cohesion and efficiency. We believe DZ BANK's plan to complete the integration by end-2018 is realistic given their similar roles and strong integration within GFG. The primary banks account for the bulk of GFG's retail banking and collectively own the enlarged DZ BANK, which accounts for nearly 40% of GFG's assets.

Profits Likely to Have Peaked: Minor loan impairment charges (LICs) and one-off valuation gains have triggered DZ BANK's exceptionally high profits since 2013. Performance declined to a more sustainable level in 2H16, mostly due to a strong rise in LICs on shipping loans. Furthermore, DZ BANK's Bauspar and insurance subsidiaries, two of its main recurring profit contributors, are exposed to pressure from the prevailing low interest rates.

Overall Resilient Asset Quality: The quality of DZ BANK's domestic assets further improved in 2016 amid a strong German economy. Its sound retail assets adequately mitigate more inherently vulnerable asset classes, especially commercial real estate (CRE) and shipping. The rapid deterioration of shipping loans since 2H16 is manageable for DZ BANK and GFG.

Strengthened Capitalisation: DZ BANK's formerly tight capitalisation has improved considerably since 2012 due to exceptionally high profits, low dividends and a capital injection from the primary banks. The merger was moderately capital-accretive by ending the deduction of WGZ BANK's minority stakes in DZ BANK's subsidiaries. DZ BANK's fully loaded post-merger common equity Tier 1 (CET1) and leverage ratios (14.5% and 4.1% at end-2016, respectively) are adequate in the context of the bank's membership of GFG.

GFG Mitigates Wholesale Funding Needs: DZ BANK is less reliant on wholesale market funding than its funding indicators suggest as it has privileged access to the primary banks' EUR100 billion stable excess funding. Its resilient external wholesale funding largely consists of covered bonds and fairly granular unsecured notes issued to diversified institutional investors.

Rating Sensitivities

Same Sensitivities as GFG's VR: In line with GFG's VR, DZ BANK's IDRs are primarily vulnerable to earnings erosion at the primary banks from the prevailing low interest rates or unexpected regulatory changes weakening GFG's strong cohesion. An upgrade would notably require reduced interest-rate sensitivity and efficiency gains at the primary banks.

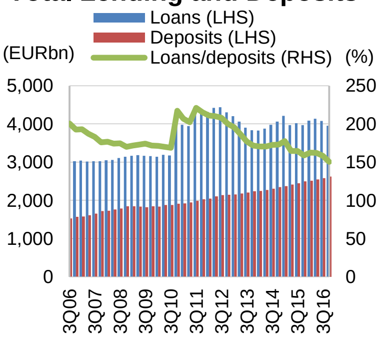
In this report, "DZ BANK" means the DZ BANK Group, ie DZ Bank AG Deutsche Zentral-Genossenschaftsbank, and its subsidiaries. The latest published full financial statements relate to end-2016. The figures per end-2015 are pre-merger while figures per end-2016 are post-merger, which limits comparability.

Fitch Economic Forecasts

Germany (growth in %)	2017	2018
Real GDP	1.8	1.7
Consumer spending	1.7	1.7
Fixed investments	1.4	1.9
CPI (end-year)	1.5	1.3

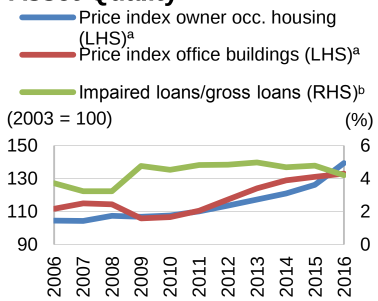
Source: Fitch (March 2017 global economic outlook)

Total Lending and Deposits[a]



[a] Non-consolidated German GAAP figures
Source: Fitch, IMF

Asset Quality



[a] 2016 value is the average of the respective index as of end-3Q16
[b] Based on data from 10 largest German banks by total assets; latest data at end-1H16
Source: VdP, Fitch

Related Criteria

Global Bank Rating Criteria (November 2016)

Operating Environment

Benign Operating Environment in Germany

The risk profile of DZ BANK, a predominantly domestic bank, is closely linked to the economy of Germany (AAA/Stable). The country's fiscal and economic strength compares favourably with European peers. The debt/GDP ratio is declining, and Fitch forecasts nominal interest rates to remain very low and GDP growth to remain robust at 1.5% in 2017 and 2018.

The German property market remains generally sound and corporate insolvencies are low. The strong labour market underpins rising household consumption. Fitch expects sound domestic fundamentals to continue to support growth, although global political uncertainties (e.g. Brexit negotiations and US trade policy) are a significant risk for the country's highly open economy and could persist for several years.

Developed Banking Sector, Effective Supervision

The German banking sector benefits from a strong legal and regulatory framework, and a well-developed financial market. Fitch's banking system indicator (BSI; 'a') and macro-prudential indicator (MPI; '1') indicate a low risk of sector-wide problems. German banks are supervised effectively by the German Federal Financial Supervisory Authority and the Bundesbank, and the largest banks, including DZ BANK, are directly supervised by the European Central Bank.

New Creditor Hierarchy for German Banks in Resolution Since January 2017

The new German statutory resolution regime in force since 1 January 2017 subordinates banks' outstanding vanilla senior unsecured debt to deposits, derivatives and structured liabilities. The new regime's retroactive effect should limit banks' needs to issue unsecured debt to fulfil their minimum requirements for own funds and eligible liabilities, and total loss-absorbing capacity.

In 4Q16, the European Commission proposed amending Directive 2014/59/EU from mid-2017 by introducing a class of senior non-preferred debt that would rank below other senior liabilities. Details have yet to emerge on the transposition into German law and the implications for the new German resolution regime. However, we expect the amended directive to leave German banks' qualifying debt buffers intact as we understand the new debt class would rank pari-passu with outstanding vanilla senior debt in a resolution.

Company Profile

GFG's Central Institution and Germany's Third-Largest Commercial Bank

As GFG's central bank, DZ BANK assists the primary banks with liquidity management, clearing and transaction banking services. As a diversified universal bank in its own right and the third-largest German commercial banking group by assets, it offers a wide array of retail and corporate banking products, primarily to the primary banks' domestic clients. DG HYP's focus on domestic CRE lending, increasingly via deepening cooperation with primary banks, illustrates DZ BANK's concentration on business that is relevant for GFG as a whole. We view the value of a stand-alone analysis of DZ BANK as limited given its deep integration within GFG, which also extends to funding and business generation.

DZ BANK's specialised subsidiaries have leading market positions in various domestic retail segments. However, despite their direct access to end-clients, these subsidiaries rely largely on the client base and sales network of the primary banks, of which they are service providers. DZ BANK's capital market business regularly relies on the primary banks' distribution capacity, even though its large corporate clients typically have no relationships with the primary banks.

DZ PRIVATBANK S.A. specialises on onshore wealth management for primary banks' mass-affluent clients (typically German business owners) while DZ BANK's modest international business consists mostly of DVB Bank's transportation asset finance. We expect modest incremental fee income from DZ BANK's cooperation with the Austrian cooperative banking group Volksbanken-Verbund (BBB−/Positive/bbb−) to distribute retail products in Austria.

DZ BANK: Main Operating Entities

As of End-2016	Main activities	DZ BANK stake (%)	Long-Term IDR
DZ BANK AG (parent bank)	Central bank functions for GFG's primary banks; group holding functions; corporate and SME banking; capital markets	n.a.	AA−/Stable
Bausparkasse Schwaebisch-Hall AG (BSH)	Mortgage lending (Bauspar activities)	97	AA−/Stable
Deutsche Genossenschafts-Hypothekenbank AG (DG HYP)	Focus on domestic commercial real estate; some public-sector lending	100	AA−/Stable
R+V Versicherung AG (R&V)	Life and non-life insurance	92	AA/Stable[a]
DVB Bank SE	(Largely international) transportation finance (shipping, aviation, rail)	95	AA−/Stable
VR-Leasing AG	Domestic and international leasing	100	Not Rated
Union Investment	Asset management	96	Not Rated
TeamBank AG	Consumer finance	92	AA−/Stable
DZ PRIVATBANK S.A.	Private banking	91	AA−/Stable
WL-BANK AG Westfaelische Landschaft Bodenkreditbank	Domestic commercial real-estate finance and public-sector lending	91	AA−/Stable

[a] Insurer financial strength rating
Source: DZ BANK, Fitch

Market Positions in Germany (End-2015)

Entity	Rank	Product
DZ BANK	1	Retail derivatives
UMH	1	Mutual funds
BSH	1	Home savings
R+V	2	Life insurance
TeamBank	3	Consumer loans
Equens	1	Payment processing
dwp bank	1	Securities processing

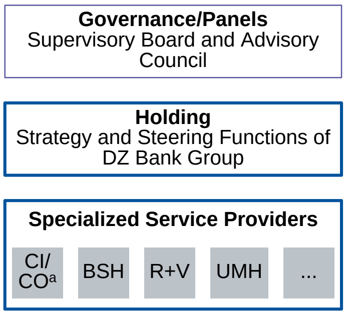
Source: DZ BANK

Comparative Key Figures

(End-2015)	WGZ BANK	DZ BANK
Total assets	EUR91bn	EUR408bn
CET1 ratio (%)	12.9	13.0
Employees	1,676	30,029
Primary banks	180	841

Source: DZ BANK

Planned Future Organisational Structure of DZ Bank Group



[a] Central institution/corporate bank
Source: DZ Bank

GFG's Sole Central Institution Since Its Merger with WGZ BANK

DZ BANK's merger with WGZ BANK in August 2016 values the combined entity at EUR17.6 billion. After several failed attempts, the merger has been facilitated by legacy asset clean-up at both banks since the financial crisis and completes decades of consolidation of GFG's central institutions. The enlarged DZ BANK, which has headquarters in Frankfurt and Duesseldorf, intends to complete the integration of the much smaller WGZ BANK by end-2018.

Both banks had similar central clearing models and have used a variety of GFG-wide systems and models developed in common with the National Association of German Cooperative Banks (Bundesverband der Deutschen Volksbanken und Raiffeisenbanken; BVR). As a result, the merger should reduce duplication of investments (mostly IT and regulatory) and enable revenue and cost synergies, which management estimates at EUR100-EUR150 million a year. In addition, the group intends to streamline its CRE business: DG HYP will absorb former WGZ BANK's CRE activities and is negotiating with WL BANK to merge by end-2017. BSH will continue to focus on retail mortgage lending as a separate entity.

DZ BANK's management envisages setting up a holding structure to combine the group's strategy and steering functions by 2020. The central clearing and corporate banking activities would be bundled in a new unit at the same level as its product providers. The final structure and legal status of the holding are still being discussed internally. In our view, this could improve transparency and facilitate capital allocation within the group.

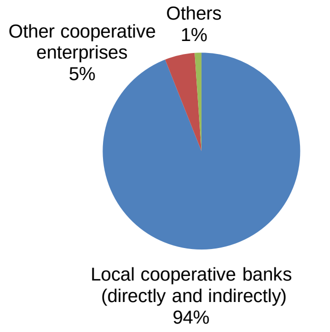
Management and Strategy

Experienced Management

DZ BANK's management has turned around its operations since the financial crisis, helped by the solid German economy. The high degree of depth, stability, experience and common values of the merged bank's management should limit integration risk. The enlarged management board of 11 members (six from DZ BANK and five from WGZ BANK) should guarantee a smooth transition, although the bank plans to reduce the size of the board to a more manageable eight members during 2017.

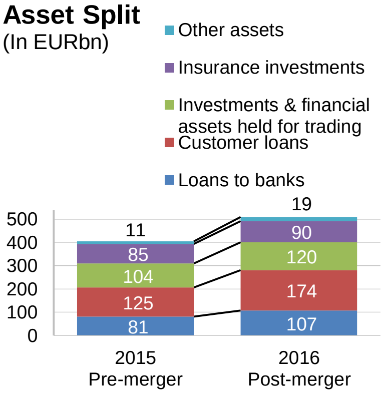
In our view, DZ BANK balances effectively its subsidiaries' interests and group-wide synergy potential. Business, financial, capital, and risk strategies are initiated at the subsidiaries' level and are coordinated and monitored by the parent via the subsidiaries' supervisory boards.

Shareholders of DZ BANK



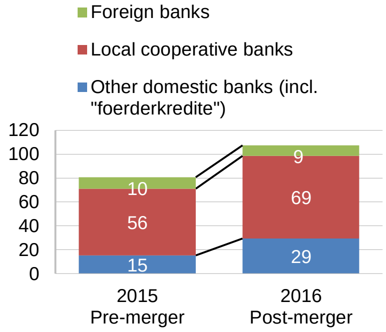
Source: DZ BANK, Fitch

Asset Split
(In EURbn)



Source: DZ BANK, Fitch

Loans to Banks
(In EURbn)



Source: DZ BANK, Fitch

Close Cooperation with GFG but High Level of Independence

BVR's main role is to manage GFG's two protection funds and monitor the risk profile of GFG's members. It also provides GFG-wide guidance on the retail and corporate banking strategy, IT integration and harmonisation of sales principles. However, day-to-day management and implementation is the responsibility of DZ BANK and the primary banks.

Risk Appetite

Cooperation with GFG Reins In DZ BANK's Risk Appetite

DZ BANK has gradually lowered its risk appetite and improved its collaboration with the primary banks due to the need to operate with higher capital buffers in a more demanding regulatory environment and due to limitations regarding risk-taking implied by its cooperation with GFG. However, material client-driven trading activities are inherent in its universal banking model.

Significant Interest-Rate Risk

As GFG's central clearer, DZ BANK bundles most of GFG's treasury management and trading activities. As a by-product of this, the bank's market risk exposure, notably from its asset-backed securities (ABS) portfolio and its insurance and Bauspar activities, accounted for about 40% of economic capital consumption in 2016. This is considerably higher than GFG's average.

We view the earnings pressure from low interest rates on the insurance and retail mortgage lending (Bauspar) units, two of its main profit contributors, as DZ BANK's main long-term challenge. Its most vulnerable asset classes (in particular, ship lending, peripheral eurozone sovereign assets and ABS) are sizeable despite the reduction of the non-shipping portfolios.

In 4Q15, DZ BANK established a Risk Appetite Statement with general principles for its business and risk strategy, to be updated annually. Its qualitative guidelines are supported by quantitative metrics and targets derived from its regulatory recovery plan. The bank has tested risk-monitoring tools and we expect the merger with WGZ BANK and the closer alignment with the primary banks to benefit DZ BANK's overall risk management.

Asset Quality

Low Impaired Loans Post-Merger

DZ BANK's non-performing client loans (NPLs, ie individually impaired or 90 days past due) increased to EUR5.2 billion at end-2016 (end-2015: EUR4.3 billion) following the consolidation of WGZ BANK. NPLs amounted to about 3% of gross loans and the NPL coverage ratio remained fairly stable at about 50%, which we consider acceptable considering the high share of collateralised retail lending (mortgages) concentrated on the robust German market.

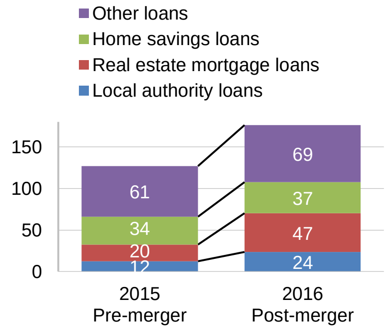
DZ BANK's interbank assets mostly pertain to GFG's primary banks due to its role as GFG's central clearer. Similar to peers, concentration to the financial and public sectors is rather high.

Reduced Exposure to Vulnerable Asset Classes

DZ BANK's exposure to ABS, leveraged and project finance and EU periphery sovereigns has more than halved as a percentage of its Fitch Core Capital (FCC) since end-2009 and is still declining. Low-risk assets, such as domestic retail loans, insurance, covered bonds, exposures to GFG's members and German (sub-)sovereign, account for almost half of total assets.

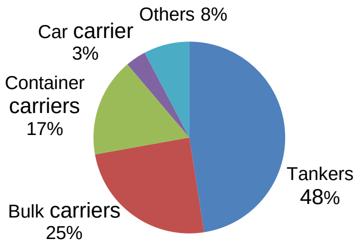
DZ BANK now reports its ABS investment portfolio in two parts. The exit portfolio contains positions purchased before the 2007 financial crisis and overwhelmingly relates to European residential mortgage-backed securities. The total ABS portfolio had a fair value of EUR3.4 billion at end-2016 (end-2015: EUR3.5 billion), including the exit portfolio, which decreased to a fair value of EUR2.5 billion (end-2015: EUR2.9 billion) through maturities. The strategy-compliant ABS portfolio comprises new business, such as assets held for short-term trading and selected warehouse deals. We believe that, despite its reduction, the ABS portfolio can still cause earnings volatility or rapid (albeit manageable) credit deterioration.

Customer Loans
(In EURbn)



Source: DZ BANK, Fitch

DVB BANK's Shipping Portfolio
(End-2016: EUR12bn)



Source: DVB BANK, Fitch

DZ Bank Group Entities' Pre-Tax Profit

(EURm)	2016	2015	Yoy (%)
DZ BANK AG	702	869	-19
BSH	158	341	-54
DG HYP	237	447	-47
DVB	-278	34	-918
DZ PRIVATBANK	3	38	-92
R+V	681	625	9
TeamBank	143	132	8
UMH	468	556	-16
VR leasing	7	-19	-137
WL BANK	118		
Other/ consolidation	-42	-570	-93
DZ BANK Group	**2,197**	**2,453**	**-10**

Source: DZ BANK

The reduced leveraged finance portfolio consists of senior debt only. The focus on domestic power, renewables and infrastructure projects drives a fairly high concentration by sector and region in the project finance portfolio but its asset quality has remained adequate.

DZ BANK's exposure to peripheral eurozone countries (Greece, Italy, Portugal and Spain) was EUR8.7 billion at end-2016, more than a third of which is booked at DG HYP. The vulnerability of DZ BANK's performance to valuation swings driven by market volatility has fallen in line with its shrinking sovereign exposure but remains significant as the assets mature very slowly.

Provisioning Needs for Shipping Sizeable but Manageable

The ship and offshore finance exposure (EUR14 billion at end-2016 and almost entirely booked at DVB Bank) is well diversified by vessel type, borrower, charterer, and shipping activity. This asset class is also by far DZ BANK's most internationally diversified loan book.

Similar to other German shipping lenders, poor market conditions have dented DZ BANK's 2016 performance in ship financing. DVB BANK's LICs surged to EUR381 million in 2016 from EUR142 million in 2015, which DZ BANK remedied with a EUR150 million loss compensation in 4Q16. The 2017 outlook for the shipping sector remains weak, but Fitch believes the size of the problem is clearly manageable in light of DZ BANK's stable sources of profits.

Earnings and Profitability

Profits Likely to Have Peaked

DZ BANK's solid performance has benefitted from material one-off gains since 2013. In 2016, these included EUR250 million from WGZ BANK's valuation and consolidation, and EUR100 million from the disposal of a stake in Visa Europe Ltd., which contributed to lift DZ BANK's pre-tax profit to a solid EUR2.2 billion. This exceeds management's mid-term annual pre-tax profit guidance post-merger of EUR1.8-EUR2.1 billion despite DVB Bank's EUR280 million loss and EUR180 million bonus interest payments to BSH's customers. We expect profits to revert to more sustainable levels less distorted by non-recurring positive effects in the medium term.

Earnings Less Driven by Core Subsidiaries

In 2016, net interest income, DZ BANK's main revenue source, declined below the pre-merger level, driven by a lower contribution from BSH resulting from the low interest rates. UMH's revenues also declined by 16% from their 2015 peak. Net trading income, largely generated at the parent bank, doubled to EUR780 million, driven by one-offs (e.g. revaluation of own debt accounted for at fair value, which will be subject to pull-to-par reversal in the coming periods). DG HYP's result was negatively affected by heightened spread volatility in its sizeable wind-down portfolio despite a good operating performance of its core business.

Higher Merger-Driven Costs but Savings Achievable in the Long Term

Valuation and consolidation gains of EUR500 million from the DZ BANK-WGZ BANK merger largely compensated EUR250 million merger-related costs in 2016. Management expects the merger to generate modest savings of EUR100-EUR150 million a year in the long term. The planned merger of the CRE activities will not generate any material cost savings, in our view, in light of WL BANK and DG HYP's already lean cost structures.

Capitalisation and Leverage

Adequate Capital Base in the Context of GFG's Strong Capitalisation

DZ BANK's capitalisation has improved in recent years following unusually high internal capital generation, low dividends and equity injections (EUR1.5 billion at DZ BANK and EUR0.3 billion at WGZ BANK) from the primary banks in 2014 to accommodate the implementation of the EU's Capital Requirements Regulation (CRR).

The merger is moderately capital-accretive by ending the deduction of WGZ BANK's minority stakes in DZ BANK's core subsidiaries. As a result, the combined bank's fully loaded CET1 ratio of 14.5% at end-2016 (13.3% at end-1H16) and leverage ratio of 4.1% (4.0%) already fulfilled the management's targets for 2019 of 13.5% and 4.0%, respectively. This is also largely in line with peers and offers adequate flexibility above the bank's SREP (Supervisory Review and Evaluation Process) requirement of 7.83% (excluding Pillar 2 Guidance) for 2017. In 2H15, the bank also issued within GFG additional Tier 1 capital replacing legacy hybrid instruments that were losing their regulatory recognition under the CRR.

DZ BANK's FCC ratio of 11.3% at end-2016 is rather modest by international standards as the deduction of the equity from its insurance subsidiary R+V as per our criteria lowers FCC by about 30%. However, we view this level as adequate in light of the bank's membership of GFG.

Group CET1 Ratio

	Transi-tional	Fully-loaded
End-1H16 DZ BANK (pre-merger)	13.9	13.3
End-1H16 WGZ BANK (pre-merger)	14.4	13.1
End-2016 DZ BANK (post-merger)	14.5	14.5

Source: DZ BANK

2017 SREP Ratio

	(in %)
CET1 minimum requirement	4.50
Additional pillar 2	1.75
Capital conservation buffer	1.25
Systemic risk buffer	0.33
SREP ratio	7.83

Source: DZ BANK

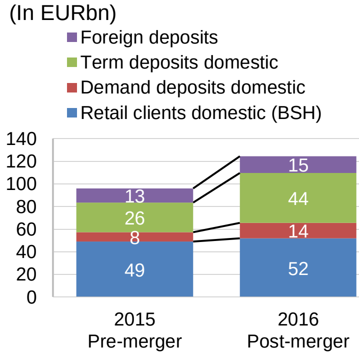
Funding and Liquidity

Strong, Diversified Funding Mix

DZ BANK's diversified funding reflects its dual structure as GFG's central clearer and universal banking group. Its funding resilience is based on the large excess retail deposits of GFG's primary banks, and DZ BANK's own covered bonds and client deposits. These three pillars cover a large share of the bank's total funding needs and limit its reliance on the unsecured debt market. The bank's liquidity coverage ratio of 151% already easily fulfils regulatory requirements and compares well with peers.

Customer Deposits

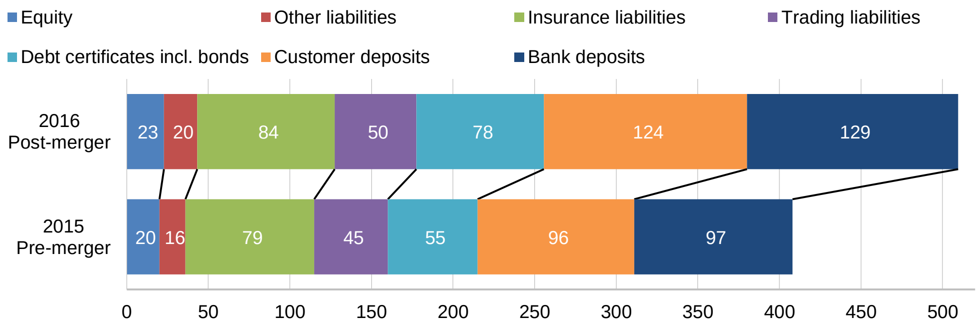
(In EURbn)



Source: DZ BANK, Fitch

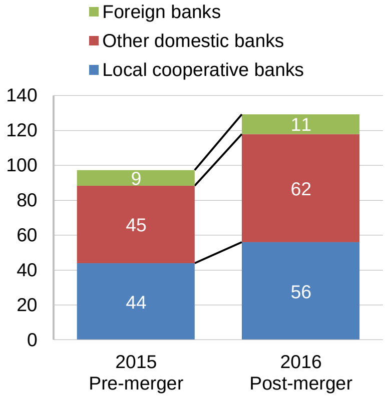
Liabilities Breakdown

(In EURbn)



Source: DZ BANK, Fitch

Bank Deposits
(In EURbn)



Source: DZ BANK, Fitch

Frequent Senior Debt Issuer and Large Covered Bond Issuer

The primary banks provide about a quarter of DZ BANK's total funding (mostly through intragroup deposits, and by buying a large share of DZ BANK's bond and Schuldscheine issuance), and over half of its short- and mid-term unsecured needs. The merger has not changed these figures materially. The primary banks are encouraged to, and generally do, maintain short-term deposits with DZ BANK equivalent to at least a high-single-digit percentage of their own corporate deposits. DZ BANK also shares evenly with the primary banks the costs of placing GFG's excess liquidity at the central bank (currently 40bp a year). The primary banks have a loan/deposit ratio of 85% as their deposits exceed their loans by about EUR100 billion.

The DZ BANK group includes three sizeable covered bond issuers: the parent bank, DG HYP and WL BANK. Of the EUR52 billion covered bonds outstanding in total at end-2016 (excluding those placed within the DZ BANK group), DZ BANK had placed almost 10% within GFG. This share fell after the merger as WGZ BANK used to issue a higher portion of its bonds in the market. Rising mortgage covered bond issuance, largely by DG HYP, should continue to offset most of the shrinkage of public-sector covered bonds, whose cover pool is only being partly replenished.

Support

IDRs Based on Mutual Support Scheme, No Sovereign Support Factored In

DZ BANK and its subsidiaries' IDRs are aligned with GFG's IDRs to reflect their membership in GFG's mutual support scheme. GFG's Support Rating of '5' and Support Rating Floor of 'No Floor' reflect Fitch's view that, due to the EU's Bank Recovery and Resolution Directive with its bail-in tool and the Single Resolution Mechanism with its resolution tools, extraordinary sovereign support for EU banks, while possible, can no longer be relied upon.

Debt Ratings

The rating of DZ BANK's senior unsecured debt, which is issued under several debt issuance and commercial paper programs, is equalised with the bank's IDRs (AA−/F1+).

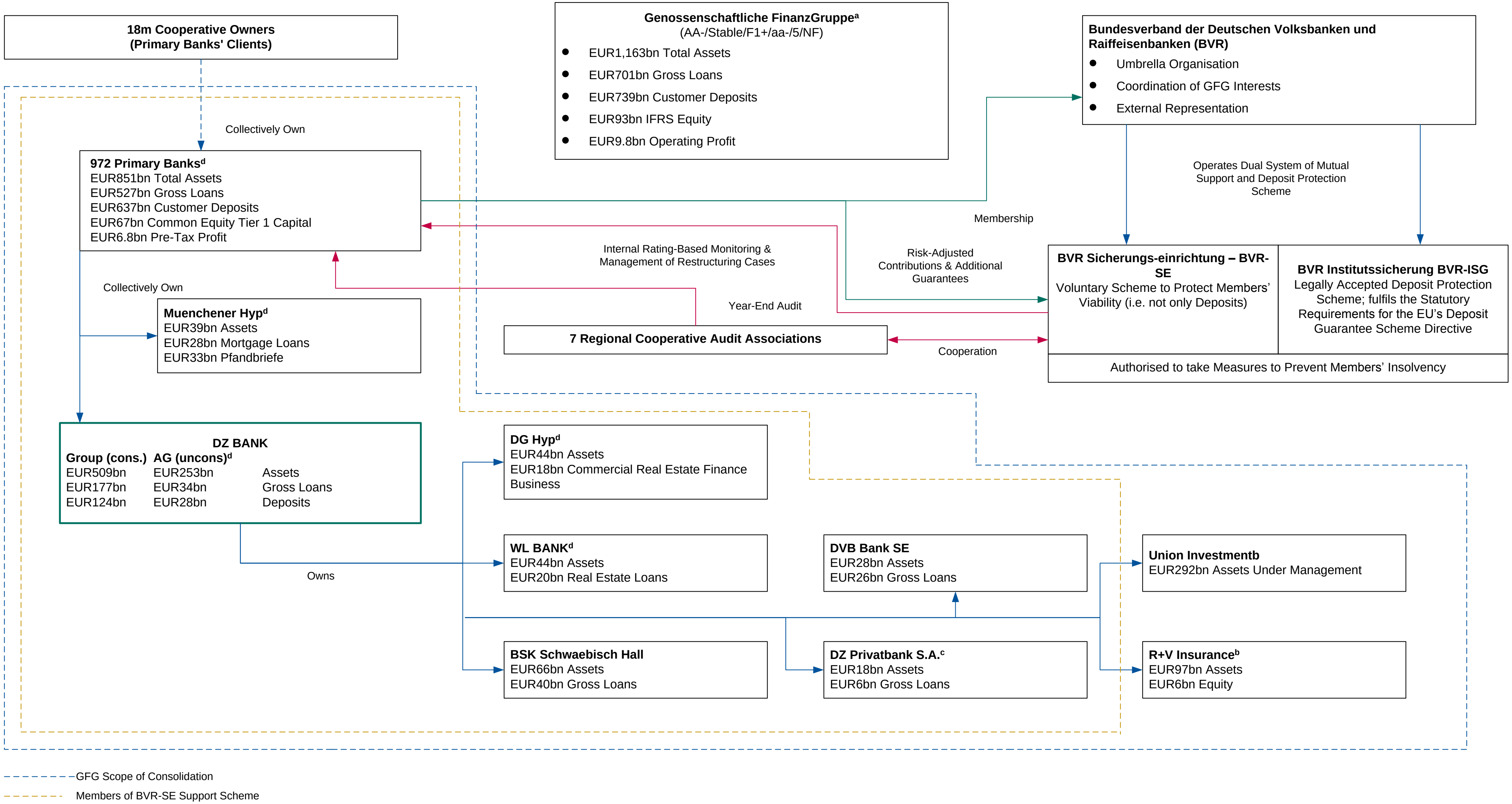
The Tier 2 and hybrid securities are notched from GFG's VR. The hybrid capital issued by DZ Bank Capital Funding Trust I is rated four notches below GFG's VR, two notches each for loss severity and incremental non-performance risk as, in our view, the notes' distribution trigger is less likely to be activated than those of the other rated hybrids. These are notched five times from GFG's VR, twice for loss severity and three times for incremental non-performance risk. The use of GFG's VR as anchor rating reflects our view that GFG will ensure that the issuers are able to meet their payments on these instruments at all times. Consequently, these securities' ratings are sensitive to a change in GFG's VR and to changes in their notching, which could be triggered by a reassessment of loss severity or relative non-performance risk.

Derivative Counterparty Rating and Deposit Ratings

In December 2016, Fitch assigned a Derivative Counterparty Rating to DZ BANK and Deposit Ratings to the bank and its rated banking subsidiaries. These ratings are aligned with GFG's IDRs to reflect our view that GFG's consolidated layer of junior and vanilla senior debt does not protect preferred senior creditors such as depositors and derivative counterparties sufficiently in the event of GFG's resolution to merit uplift for incremental probability of default reasons or to give comfort that recoveries on deposits in a default scenario would be above average.

This is driven by the fact that DZ BANK traditionally places a large share of its senior debt issuance within GFG. It also reflects DZ BANK's limited debt issuance needs due to the modest size of its wholesale business relative to the predominantly deposit-funded GFG. In our opinion, a resolution of GFG would only occur in the unlikely event that the mutual support scheme would fail to protect its members' viability.

GFG's Simplified Organisational Chart (IFRS Figures at End-2016)



[a] End-2015 IFRS figures as 2016 figures are not yet available
[b] Not part of BVR SE or BVR ISG; not aligned with Group IDRs of GFG
[c] Not part of BVR ISG
[d] Local GAAP
Source: Fitch, BVR, DZ BANK

DZ BANK AG Deutsche Zentral-Genossenschaftsbank

Income Statement

	31 Dec 2016[1]	31 Dec 2015	31 Dec 2014	31 Dec 2013
	Year End	Year End	Year End	Year End
	EURm	EURm	EURm	EURm
	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified
1. Interest Income on Loans	6,464	6,199	6,739	6,826
2. Other Interest Income	225	338	462	429
3. Dividend Income	122	248	101	204
4. Gross Interest and Dividend Income	**6,811**	**6,785**	**7,302**	**7,459**
5. Interest Expense on Customer Deposits	n.a.	n.a.	n.a.	n.a.
6. Other Interest Expense	4,151	3,797	4,253	4,341
7. Total Interest Expense	**4,151**	**3,797**	**4,253**	**4,341**
8. Net Interest Income	**2,660**	**2,988**	**3,049**	**3,118**
9. Net Gains (Losses) on Trading and Derivatives	831	669	798	1,248
10. Net Gains (Losses) on Other Securities	46	35	145	(51)
11. Net Gains (Losses) on Assets at FV through Income Statement	n.a.	n.a.	n.a.	n.a.
12. Net Insurance Income	760	676	940	375
13. Net Fees and Commissions	1,698	1,514	1,415	1,104
14. Other Operating Income	87	25	(123)	10
15. Total Non-Interest Operating Income	**3,422**	**2,919**	**3,175**	**2,686**
16. Personnel Expenses	1,760	1,610	1,599	1,513
17. Other Operating Expenses	1,840	1,642	1,489	1,424
18. Total Non-Interest Expenses	**3,600**	**3,252**	**3,088**	**2,937**
19. Equity-accounted Profit/ Loss - Operating	(17)	(41)	(36)	(73)
20. Pre-Impairment Operating Profit	**2,465**	**2,614**	**3,100**	**2,794**
21. Loan Impairment Charge	485	164	182	526
22. Securities and Other Credit Impairment Charges	84	(11)	9	14
23. Operating Profit	**1,896**	**2,461**	**2,909**	**2,254**
24. Equity-accounted Profit/ Loss - Non-operating	n.a.	n.a.	n.a.	n.a.
25. Non-recurring Income	356	65	4	35
26. Non-recurring Expense	55	73	46	78
27. Change in Fair Value of Own Debt	n.a.	n.a.	n.a.	n.a.
28. Other Non-operating Income and Expenses	n.a.	n.a.	n.a.	n.a.
29. Pre-tax Profit	**2,197**	**2,453**	**2,867**	**2,211**
30. Tax expense	591	657	710	754
31. Profit/Loss from Discontinued Operations	n.a.	n.a.	n.a.	n.a.
32. Net Income	**1,606**	**1,796**	**2,157**	**1,467**
33. Change in Value of AFS Investments	329	(116)	1,344	413
34. Revaluation of Fixed Assets	n.a.	n.a.	n.a.	n.a.
35. Currency Translation Differences	17	45	12	(10)
36. Remaining OCI Gains/(losses)	(161)	186	(790)	(59)
37. Fitch Comprehensive Income	**1,791**	**1,911**	**2,723**	**1,811**
38. Memo: Profit Allocation to Non-controlling Interests	138	380	427	1,169
39. Memo: Net Income after Allocation to Non-controlling Interests	1,468	1,416	1,730	298
40. Memo: Common Dividends Relating to the Period	367	362	317	255
41. Memo: Preferred Dividends Related to the Period	n.a.	n.a.	n.a.	n.a.

[1] 2016 figures are post-merger whereas all previous periods show DZ BANK prior its merger with WGZ BANK.

DZ BANK AG Deutsche Zentral-Genossenschaftsbank

Balance Sheet

	31 Dec 2016[1] Year End EURm	31 Dec 2015 Year End EURm	31 Dec 2014 Year End EURm	31 Dec 2013 Year End EURm
Assets				
A. Loans				
1. Residential Mortgage Loans	37,253	33,659	29,960	27,259
2. Other Mortgage Loans	48,166	21,373	22,148	23,514
3. Other Consumer/ Retail Loans	n.a.	n.a.	n.a.	n.a.
4. Corporate & Commercial Loans	n.a.	n.a.	n.a.	n.a.
5. Other Loans	91,113	71,818	70,329	69,385
6. Less: Reserves for Impaired Loans	2,358	2,021	2,279	2,379
7. Net Loans	**174,174**	**124,829**	**120,158**	**117,779**
8. Gross Loans	**176,532**	**126,850**	**122,437**	**120,158**
9. Memo: Impaired Loans included above	5,187	4,269	4,791	4,563
10. Memo: Loans at Fair Value included above	n.a.	n.a.	n.a.	n.a.
B. Other Earning Assets				
1. Loans and Advances to Banks	107,217	80,683	79,208	74,053
2. Reverse Repos and Cash Collateral	n.a.	n.a.	n.a.	n.a.
3. Trading Securities and at FV through Income	25,694	27,837	26,621	30,760
4. Derivatives	25,110	22,353	28,564	23,311
5. Available for Sale Securities	68,993	53,053	56,056	55,285
6. Held to Maturity Securities	n.a.	n.a.	n.a.	n.a.
7. Equity Investments in Associates	1,187	1,252	1,227	1,607
8. Other Securities	n.a.	n.a.	n.a.	n.a.
9. Total Securities	**120,984**	**104,495**	**112,468**	**110,963**
10. Memo: Government Securities included Above	33,992	28,735	30,134	26,907
11. Memo: Total Securities Pledged	n.a.	n.a.	n.a.	n.a.
12. Investments in Property	253	263	93	88
13. Insurance Assets	94,092	87,926	83,422	74,331
14. Other Earning Assets	n.a.	n.a.	n.a.	n.a.
15. Total Earning Assets	**496,720**	**398,196**	**395,349**	**377,214**
C. Non-Earning Assets				
1. Cash and Due From Banks	8,515	6,542	3,033	3,812
2. Memo: Mandatory Reserves included above	n.a.	n.a.	n.a.	n.a.
3. Foreclosed Real Estate	n.a.	n.a.	n.a.	n.a.
4. Fixed Assets	1,499	1,447	2,199	1,674
5. Goodwill	169	169	216	216
6. Other Intangibles	462	406	329	349
7. Current Tax Assets	432	371	378	452
8. Deferred Tax Assets	848	531	666	1,092
9. Discontinued Operations	182	166	33	11
10. Other Assets	620	513	479	578
11. Total Assets	**509,447**	**408,341**	**402,682**	**385,398**
Liabilities and Equity				
D. Interest-Bearing Liabilities				
1. Customer Deposits - Current	21,720	15,468	10,676	12,956
2. Customer Deposits - Savings	53,770	50,926	48,343	44,984
3. Customer Deposits - Term	48,935	29,792	37,409	40,471
4. Total Customer Deposits	**124,425**	**96,186**	**96,428**	**98,411**
5. Deposits from Banks	129,280	97,227	89,254	91,158
6. Repos and Cash Collateral	n.a.	n.a.	n.a.	n.a.
7. Commercial Paper and Short-term Borrowings	33,719	27,503	23,470	10,667
8. Total Money Market and Short-term Funding	**287,424**	**220,916**	**209,152**	**200,236**
9. Senior Unsecured Debt (original maturity > 1 year)	44,519	27,448	32,139	42,087
10. Subordinated Borrowing	4,723	4,142	3,784	3,838
11. Covered Bonds	n.a.	n.a.	n.a.	n.a.
12. Other Long-term Funding	n.a.	n.a.	n.a.	n.a.
13. Total LT Funding (original maturity > 1 year)	**49,242**	**31,590**	**35,923**	**45,925**
14. Derivatives	29,177	25,625	29,693	22,972
15. Trading Liabilities	25,081	21,650	24,860	25,432
16. Total Funding	**390,924**	**299,781**	**299,628**	**294,565**
E. Non-Interest Bearing Liabilities				
1. Fair Value Portion of Debt	n.a.	n.a.	n.a.	n.a.
2. Credit impairment reserves	n.a.	n.a.	n.a.	n.a.
3. Reserves for Pensions and Other	4,041	3,081	3,172	2,382
4. Current Tax Liabilities	297	408	338	328
5. Deferred Tax Liabilities	483	367	385	247
6. Other Deferred Liabilities	n.a.	n.a.	n.a.	n.a.
7. Discontinued Operations	n.a.	n.a.	n.a.	n.a.
8. Insurance Liabilities	89,073	83,184	78,923	71,399
9. Other Liabilities	1,739	1,791	1,991	1,926
10. Total Liabilities	**486,557**	**388,612**	**384,437**	**370,847**
F. Hybrid Capital				
1. Pref. Shares and Hybrid Capital accounted for as Debt	n.a.	n.a.	n.a.	363
2. Pref. Shares and Hybrid Capital accounted for as Equity	2,160	2,160	2,160	2,523
G. Equity				
1. Common Equity	18,557	13,740	11,715	8,956
2. Non-controlling Interest	666	2,562	3,162	2,318
3. Securities Revaluation Reserves	1,448	1,228	1,200	379
4. Foreign Exchange Revaluation Reserves	70	46	24	7
5. Fixed Asset Revaluations and Other Accumulated OCI	(11)	(7)	(16)	5
6. Total Equity	**20,730**	**17,569**	**16,085**	**11,665**
7. Total Liabilities and Equity	**509,447**	**408,341**	**402,682**	**385,398**
8. Memo: Fitch Core Capital	13,365	10,885	9,753	6,600

[1] 2016 figures are post-merger whereas all previous periods show DZ BANK prior its merger with WGZ BANK.

DZ BANK AG Deutsche Zentral-Genossenschaftsbank

Summary Analytics

	31 Dec 2016[1] Year End	31 Dec 2015 Year End	31 Dec 2014 Year End	31 Dec 2013 Year End
A. Interest Ratios				
1. Interest Income on Loans/ Average Gross Loans	4.1	5.0	5.5	5.6
2. Interest Exp. on Client Deposits/Av. Client Deposits	n.a.	n.a.	n.a.	n.a.
3. Interest Income/ Average Earning Assets	1.5	1.7	1.9	1.9
4. Interest Expense/ Average Interest-bearing Liabilities	1.1	1.3	1.4	1.4
5. Net Interest Income/ Average Earning Assets	0.6	0.8	0.8	0.8
6. Net Int. Inc Less LIC/ Av. Earning Assets	0.5	0.7	0.7	0.7
7. NII Less Pref. Stock Dividend/Av. Earning Assets	0.6	0.8	0.8	0.8
B. Other Operating Profitability Ratios				
1. Non-Interest Income/ Gross Revenues	56.3	49.4	51.0	46.3
2. Non-Interest Expense/ Gross Revenues	59.2	55.1	49.6	50.6
3. Non-Interest Expense/ Average Assets	0.8	0.8	0.8	0.7
4. Pre-impairment Op. Profit/ Average Equity	12.7	16.3	21.4	25.0
5. Pre-impairment Op. Profit/ Average Total Assets	0.5	0.6	0.8	0.7
6. LICs/ Pre-impairment Op. Profit	23.1	5.9	6.2	19.3
7. Operating Profit/ Average Equity	9.7	15.3	20.0	20.2
8. Operating Profit/ Average Total Assets	0.4	0.6	0.7	0.6
9. Operating Profit / Risk Weighted Assets	1.6	2.5	3.0	2.6
C. Other Profitability Ratios				
1. Net Income/ Average Total Equity	8.3	11.2	14.9	13.1
2. Net Income/ Average Total Assets	0.3	0.4	0.5	0.4
3. Fitch Comprehensive Income/ Average Total Equity	9.2	11.9	18.8	16.2
4. Fitch Comprehensive Income/ Average Total Assets	0.4	0.5	0.7	0.5
5. Taxes/ Pre-tax Profit	26.9	26.8	24.8	34.1
6. Net Income/ Risk Weighted Assets	1.4	1.8	2.2	1.7
D. Capitalization				
1. FCC/FCC-Adjusted Risk Weighted Assets	11.3	11.1	10.0	7.7
2. Tangible Common Equity/ Tangible Assets	3.9	4.2	3.8	2.9
3. Tier 1 Regulatory Capital Ratio	16.0	15.6	13.7	16.4
4. Total Regulatory Capital Ratio	18.6	18.8	16.8	17.9
5. Common Equity Tier 1 Capital Ratio	14.5	13.9	12.2	n.a.
6. Equity/ Total Assets	4.1	4.3	4.0	3.0
7. Cash Dividends Paid & Declared/ Net Income	22.9	20.2	14.7	17.4
8. Internal Capital Generation	6.0	8.2	11.4	10.4
E. Loan Quality				
1. Growth of Total Assets	24.8	1.4	4.5	(5.4)
2. Growth of Gross Loans	39.2	3.6	1.9	(3.0)
3. Impaired Loans/ Gross Loans	2.9	3.4	3.9	3.8
4. Reserves for Impaired Loans/ Gross Loans	1.3	1.6	1.9	2.0
5. Reserves for Impaired Loans/ Impaired Loans	45.5	47.3	47.6	52.1
6. Impaired loans less Reserves for Impaired Loans/FCC	21.2	20.7	25.8	33.1
7. Imp. Loans less Reserves for Imp. Loans/ Equity	13.7	12.8	15.6	18.7
8. Loan Impairment Charges/ Average Gross Loans	0.3	0.1	0.2	0.4
9. Net Charge-offs/ Average Gross Loans	0.1	0.3	0.2	0.3
10. Imp. Loans + Forecl. Assets/ Gross Loans + Forecl. Assets	2.9	3.4	3.9	3.8
F. Funding and Liquidity				
1. Loans/ Customer Deposits	142	132	127	122
2. Interbank Assets/ Interbank Liabilities	83	83	89	81
3. Customer Deposits/ Total Funding (excluding derivatives)	34	35	35	36
4. Liquidity Coverage Ratio	151	126	n.a.	n.a.
5. Net Stable Funding Ratio	n.a.	99	n.a.	n.a.

[1] 2016 figures are post-merger whereas all previous periods show DZ BANK prior its merger with WGZ BANK.

DZ BANK AG Deutsche Zentral-Genossenschaftsbank

Reference Data

	30 Dec 2016[1] Year End EURm	31 Dec 2015 Year End EURm	31 Dec 2014 Year End EURm	31 Dec 2013 Year End EURm
A. Off-Balance Sheet Items				
1. Managed Securitized Assets Reported Off-Balance Sheet	n.a.	n.a.	n.a.	n.a.
2. Other off-balance sheet exposure to securitizations	n.a.	n.a.	n.a.	n.a.
3. Guarantees	7,157	6,417	5,419	5,157
4. Acceptances and documentary credits reported off-balance sheet	n.a.	n.a.	n.a.	n.a.
5. Committed Credit Lines	33,130	24,876	24,264	19,838
7. Other Off-Balance Sheet items	n.a.	n.a.	n.a.	n.a.
8. Total Assets under Management	n.a.	n.a.	n.a.	n.a.
B. Average Balance Sheet				
Average Loans	158,825	125,141	121,630	122,250
Average Earning Assets	467,749	398,197	387,929	386,579
Average Assets	479,714	406,615	396,724	396,217
Average Managed Securitized Assets (OBS)	n.a.	n.a.	n.a.	n.a.
Average Interest-Bearing Liabilities	365,420	300,799	299,928	308,220
Average Common equity	16,785	12,578	10,167	8,471
Average Equity	19,463	16,064	14,515	11,166
Average Customer Deposits	116,041	97,814	97,917	95,669
C. Maturities				
Asset Maturities:				
Loans & Advances < 3 months	20,833	20,847	19,450	20,993
Loans & Advances 3 - 12 Months	16,826	14,624	15,424	15,370
Loans and Advances 1 - 5 Years	65,008	57,110	57,286	56,784
Loans & Advances > 5 years	73,865	34,269	30,277	27,011
Debt Securities < 3 Months	n.a.	n.a.	n.a.	n.a.
Debt Securities 3 - 12 Months	n.a.	n.a.	n.a.	n.a.
Debt Securities 1 - 5 Years	n.a.	n.a.	n.a.	n.a.
Debt Securities > 5 Years	n.a.	n.a.	n.a.	n.a.
Loans & Advances to Banks < 3 Months	34,526	19,972	21,388	14,248
Loans & Advances to Banks 3 - 12 Months	8,412	7,674	6,967	7,717
Loans & Advances to Banks 1 - 5 Years	29,655	31,379	30,317	31,941
Loans & Advances to Banks > 5 Years	34,624	21,658	20,646	17,147
Liability Maturities:				
Retail Deposits < 3 months	n.a.	n.a.	n.a.	n.a.
Retail Deposits 3 - 12 Months	n.a.	n.a.	n.a.	n.a.
Retail Deposits 1 - 5 Years	n.a.	n.a.	n.a.	n.a.
Retail Deposits > 5 Years	n.a.	n.a.	n.a.	n.a.
Other Deposits < 3 Months	27,679	20,938	15,680	26,246
Other Deposits 3 - 12 Months	5,245	2,642	3,285	2,830
Other Deposits 1 - 5 Years	10,923	8,312	9,690	9,086
Other Deposits > 5 Years	80,578	64,294	67,773	60,249
Deposits from Banks < 3 Months	51,355	45,151	34,995	35,172
Deposits from Banks 3 - 12 Months	8,761	7,478	9,036	10,115
Deposits from Banks 1 - 5 Years	28,744	24,304	25,549	26,413
Deposits from Banks > 5 Years	40,420	20,294	19,674	19,458
Senior Debt Maturing < 3 months	n.a.	n.a.	n.a.	n.a.
Senior Debt Maturing 3-12 Months	n.a.	n.a.	n.a.	n.a.
Senior Debt Maturing 1- 5 Years	n.a.	n.a.	n.a.	n.a.
Senior Debt Maturing > 5 Years	n.a.	n.a.	n.a.	n.a.
Total Senior Debt on Balance Sheet	n.a.	n.a.	n.a.	n.a.
Fair Value Portion of Senior Debt	n.a.	n.a.	n.a.	n.a.
Subordinated Debt Maturing < 3 months	n.a.	n.a.	n.a.	n.a.
Subordinated Debt Maturing 3-12 Months	n.a.	n.a.	n.a.	n.a.
Subordinated Debt Maturing 1- 5 Year	n.a.	n.a.	n.a.	n.a.
Subordinated Debt Maturing > 5 Years	n.a.	n.a.	n.a.	n.a.
Total Subordinated Debt on Balance Sheet	4,723	4,142	3,784	3,838
Fair Value Portion of Subordinated Debt	n.a.	n.a.	n.a.	n.a.
D. Risk Weighted Assets				
1. Risk Weighted Assets	118,462	98,090	97,861	85,293
2. Fitch Core Capital Adjustments for Insurance and Securitisation Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.
3. Fitch Core Capital Adjusted Risk Weighted Assets	118,462	98,090	97,861	85,293
4. Other Fitch Adjustments to Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.
5. Fitch Adjusted Risk Weighted Assets	118,462	98,090	97,861	85,293
E. Equity Reconciliation				
1. Equity	20,730	17,569	16,085	11,665
2. Add: Pref. Shares and Hybrid Capital accounted for as Equity	2,160	2,160	2,160	2,523
3. Add: Other Adjustments	n.a.	n.a.	n.a.	n.a.
4. Published Equity	22,890	19,729	18,245	14,188
F. Fitch Core Capital Reconciliation				
1. Total Equity as reported (including non-controlling interests)	20,730	17,569	16,085	11,665
2. Fair value effect incl in own debt/borrowings at fv on the B/S- CC only	n.a.	n.a.	n.a.	n.a.
3. Non-loss-absorbing non-controlling interests	n.a.	n.a.	n.a.	n.a.
4. Goodwill	169	169	216	216
5. Other intangibles	462	406	329	349
6. Deferred tax assets deduction	59	35	89	133
7. Net asset value of insurance subsidiaries	6,675	6,074	5,698	4,367
8. First loss tranches of off-balance sheet securitizations	n.a.	n.a.	n.a.	n.a.
9. Fitch Core Capital	**13,365**	**10,885**	**9,753**	**6,600**

[1] 2016 figures are post-merger whereas all previous periods show DZ BANK prior its merger with WGZ BANK.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.